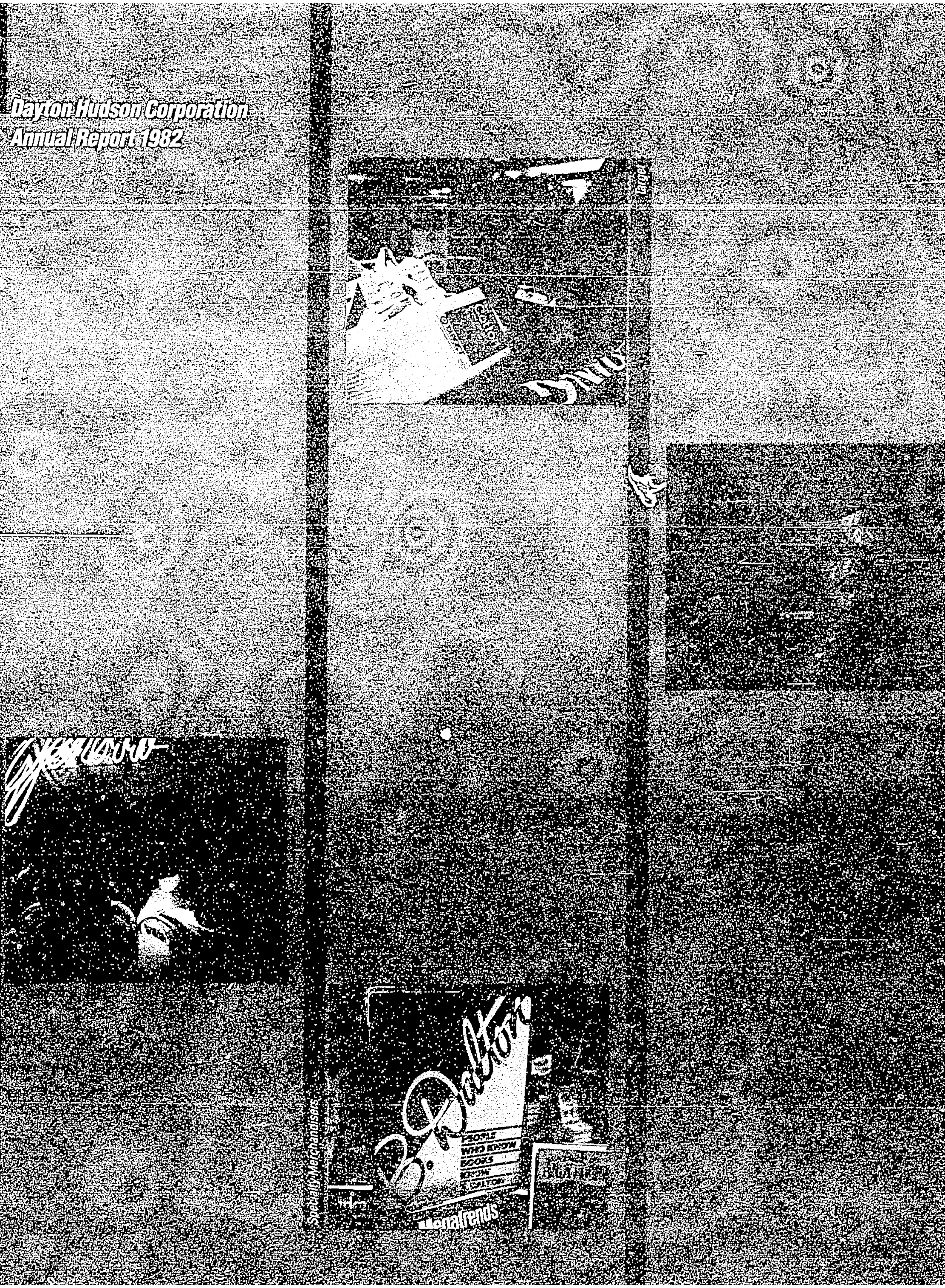
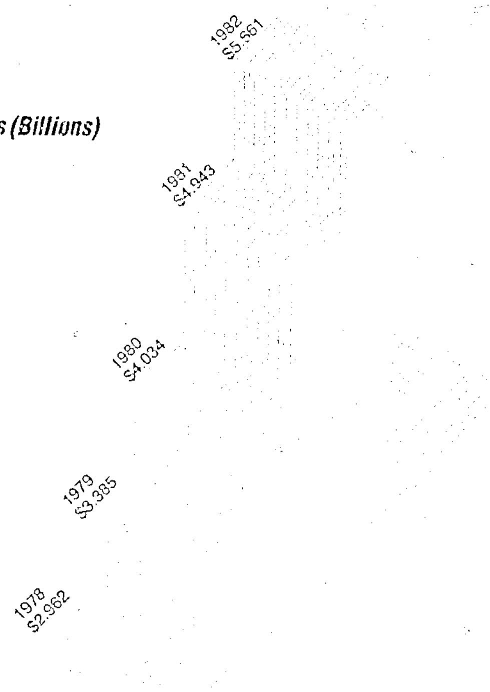
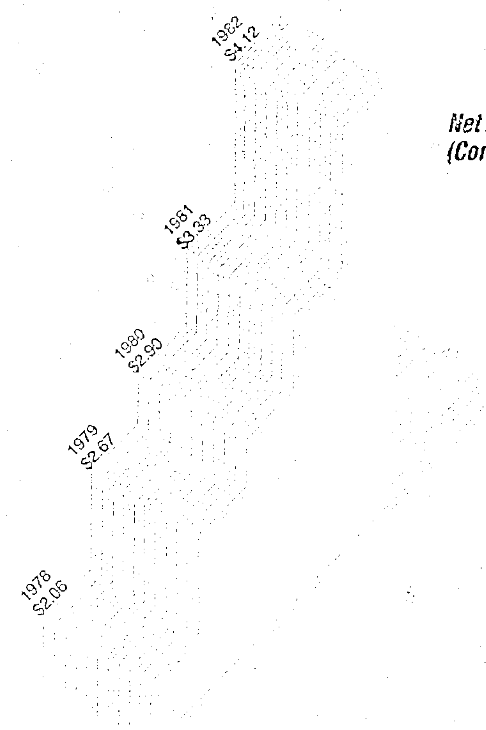
Dayton Hudson Corporation
Annual Report 1982



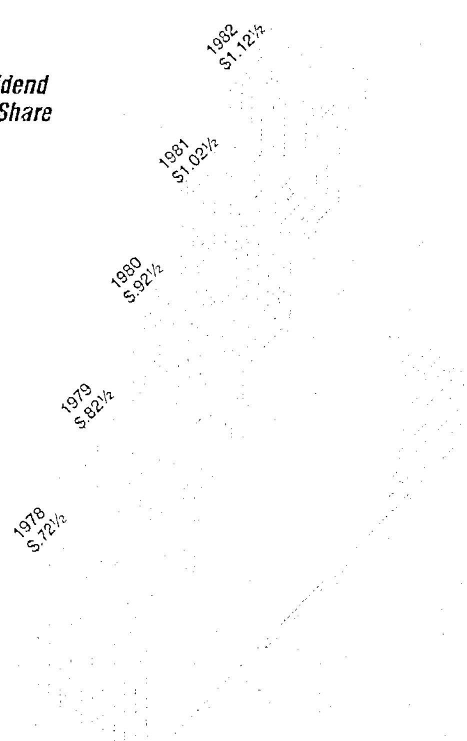
1 *Revenues (Billions)*



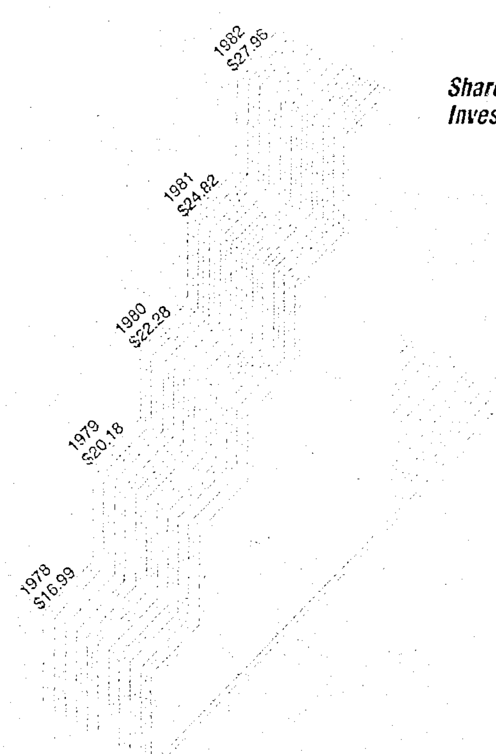
Net Earnings Per Share (Continuing Operations)



Cash Dividend Paid Per Share



Shareholders' Investment Per Share



To Our Shareholders:

Dayton Hudson Corporation achieved record earnings and revenues in 1982, despite a difficult economic environment.

Net earnings from retail operations were $4.12 per share, an increase of 24% over the $3.33 per share we reported in 1981. Total retail revenues were up 15% over last year.

Each of our four business segments—Target, Mervyn's, the department store group and the specialty merchandisers group—reported an increase in operating profit (earnings from operations before corporate expense, interest expense and income taxes). In total, retail operating profit was up 30% over 1981.

We are particularly encouraged by the performance of Target and Mervyn's, our two primary growth companies. Both achieved strong earnings improvement in 1982.

We also are pleased with the results achieved by our department store group. Hudson's in particular had a very good year, reporting a significant increase in operating profit.

Our results for 1982 continue an unbroken 10-year record of improved earnings from retail operations. Since 1972, retail earnings per share have grown at an annual compound rate of 21.7%.

Financial Position

Our financial position remained very strong throughout 1982.

We issued $100 million of 14¾% sinking fund debentures in June, and $100 million of 11⅞% sinking fund debentures in October. The proceeds from both offerings were used to finance our expansion program.

As a result of these offerings, our year-end ratio of balance sheet debt to total capitalization was 31%, compared with 30% at the end of 1981. This increase reflects our previously announced intention to make greater use of external financing to support expansion.

Including all operating leases, our year-end ratio of total debt to capitalization was 41%, compared with 39% a year ago. Even though we plan to acquire additional long-term debt to fund our growth, this ratio is planned to increase only moderately since it is expected to be balanced by additional earnings. We consider this to be well within the debt ceiling necessary to ensure an appropriately flexible and conservative financial position.

Capital Investment and Expansion

Our investment in expansion increased in 1982. Including capital expenditures and the present value of lease obligations, the total investment was $395 million, compared with $300 million in the previous year.

The 1982 investment includes the acquisition of leases for 33 retail discount stores in California, Arizona and Texas. These sites are being remodeled and converted into Target stores.

During 1982, we added 16 Target stores, 12 Mervyn's stores, one department store and 83 B. Dalton stores. The new units increased retail space to nearly 37 million square feet from 35 million square feet a year ago.

Expansion plans for 1983 anticipate a capital investment, including capital and operating leases, of approximately $475 million. Scheduled openings include 39 Target stores, 17 Mervyn's stores, one department store and approximately 60 B. Dalton stores. The additions will increase total retail space by approximately 5.3 million square feet.

Management and Board Changes

P. Gerald Mills, Chairman and Chief Executive Officer of The J. L. Hudson Company, was named to the additional post of Executive Vice President of Dayton Hudson Corporation effective February 1, 1983. In his new position, Mr. Mills is responsible for all department store operations.

Roger L. Hale, President and Chief Executive Officer of Tennant Company, was elected to the Board of Directors in November. Mr. Hale's election increased the size of the Board to 15 members. He is the twelfth non-management director.

Consistent with our rules governing the retirement and tenure of directors, Bruce B. Dayton and Paul N. Ylvisaker will retire from the Board of Directors in May, at the end of their present terms.

During his 43-year career, Bruce Dayton was the chief architect of our successful growth from a single Minneapolis department store to the nation's fifth largest general merchandise retailer. He served successively as President of The Dayton Company, as Chairman of the Board of Dayton Hudson Corporation, as Chairman of the Executive Committee and as Chairman of the Finance Committee. We are all indebted to him not only for his extraordinary vision, but also for his dynamic leadership in helping us to carry out that vision.

Paul Ylvisaker has served as a director since 1971. In 1982, he retired as Dean of the Graduate School of Education at Harvard University, a position he held since 1972. We deeply appreciate the wisdom and insight he has provided as a director of Dayton Hudson.

The Outlook

As we enter 1983, we are encouraged by a number of signs which suggest that the recession has ended and recovery is underway. Interest rates have fallen significantly in the last 18 months. Industrial production is finally on the upswing and inflation is at the lowest level we have seen in a number of years.

Retail sales also have been relatively strong in the early months of the year. Our sales in the first quarter continue to show good improvement over last year.

Despite these encouraging indications of recovery, we are continuing to plan our business conservatively. We believe the economic upturn will probably proceed at a moderate, though uneven, pace throughout the year. Likewise, the consumer's transition from caution to confidence will be a slow process. As a result, the retail environment will remain very competitive.

Taking a longer view, we continue to be optimistic about our prospects for growth in the future. We are entering a period that holds many opportunities for retailers. Our base business is strong and we have a clear strategy for growth. We believe that we are in an excellent position to benefit from the improving business environment.

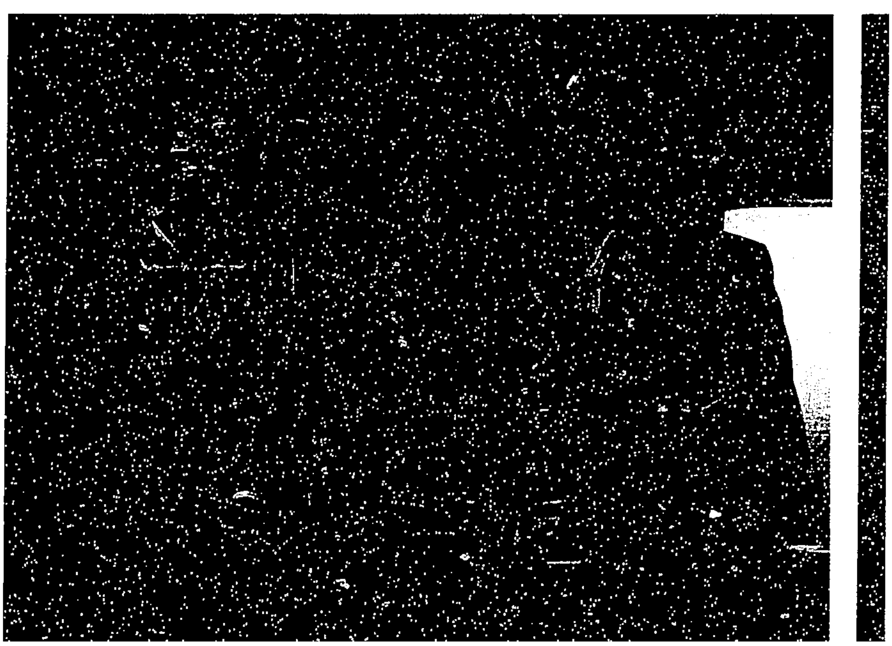
William A. Andres
Chairman and Chief Executive Officer

Kenneth A. Macke
President and Chief Operating Officer

Richard L. Schall
Vice Chairman and Chief Administrative Officer

April 6, 1983

Left to right: Richard L. Schall, Kenneth A. Macke, William A. Andres.



Our Strategy for Growth

Long-term strategic planning has been a key management tool at Dayton Hudson Corporation from the very beginning. Our dynamic growth is the direct result of earlier management decisions made within the framework of a clearly articulated corporate strategy.

Today, strategic planning continues to be an important part of the management process at Dayton Hudson—and the long-term view it affords is more important than ever before.

We are managing our business in rapidly changing times. Even more dramatic changes lie ahead—changes that will affect virtually all aspects of our business. Clearly, growth in the 1980s will be more challenging than in the past.

Yet the future also holds many opportunities for the retail business. Many of the changes coming in the years ahead will benefit those who are planning their business for the long term.

Our strategy provides us with a clear sense of direction to guide us through these complex times. Yet it remains flexible enough to allow us to modify our strategic direction should it become necessary.

It also addresses the major strategic issues which we believe will confront us in the coming years—issues both in our operating environment and within the Corporation itself.

Our principal operating strategy, for example, responds to what we believe will be the predominant consumer trend for some time to come—the increasing importance of value to the retail shopper.

Our management strategies provide us with tools to manage a changing environment to our advantage. They also address such internal factors as our increasing size and our current growth opportunities.

Operating Strategy

As retailers, our most important job is to serve our customers better than our competition by responding effectively to the customer's changing needs and desires. To succeed at this task, we must listen very carefully to what our customers tell us. Today, their message is clear and precise: they want—and demand—the greatest value for their shopping dollar.

Fulfilling the value expectations of our customers is our principal operating strategy and the cornerstone of our corporate strategic plan. It is the number-one merchandising objective of each of our retail businesses—and it is the primary strategic consideration we look for in new business opportunities.

Traditionally, value has played an equal role with quality, fashion and dominance to form the Dayton Hudson merchandising strategy. Today, however, we consider value by itself to be our principal operating strategy, with quality, fashion and dominance among the ingredients providing support to this thrust.

Value has always been important to the retail consumer. Indeed, much of the evolution in American retailing during this century has been the result of one format being replaced by another that was able to offer greater value to the consumer.

The increased emphasis on value that we see today is a necessary and logical response by consumers to dramatic changes that have taken place both in their personal lives and in American society.

Changing economic conditions, for example, have altered traditional buying patterns. After nearly a decade of high inflation, shrinking discretionary income and general economic uncertainty, shoppers at nearly all income levels are conscious of the need to get the most for their money. They are more careful and less impulsive in their shopping, and they analyze their purchases thoroughly.

Consumers themselves have also changed. They are better educated than ever before. As shoppers, they are more knowledgeable, more sophisticated and much more confident. They are sensitive to prices, but they are also very interested in product quality and reliability, and in the reputation and integrity of both manufacturers and retailers.

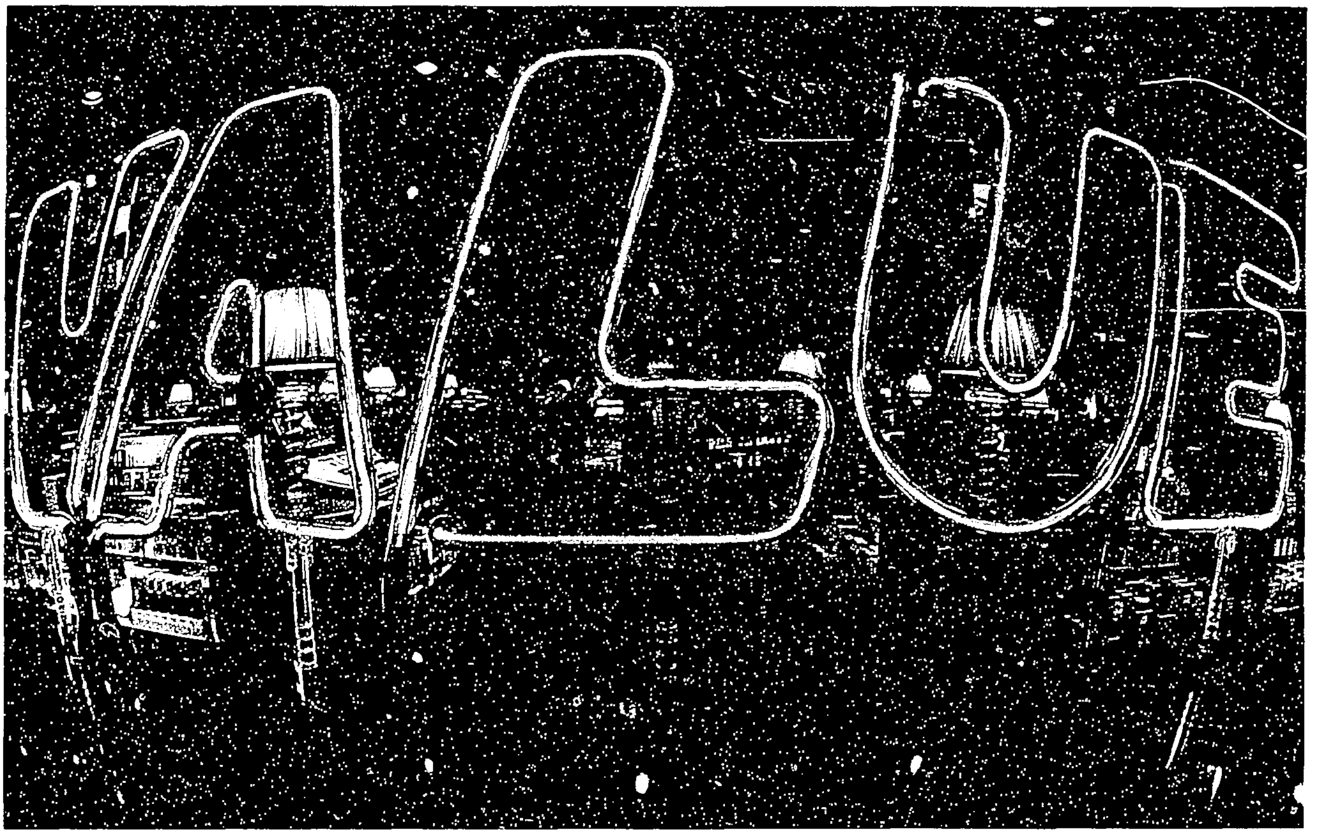
The traditional concept of value has changed as well. Indeed, it has become so complex as to defy a precise definition. The quality/price relationship — quality merchandise at competitive prices—remains an important part of the value formula. But today that formula has other elements as well, including convenience, assortments, fashion, store environment and customer service. Furthermore, it is becoming clear that each of these elements has varying degrees of importance, depending upon the customer or the product under consideration.

As we look ahead in our business planning, we expect that many of the conditions which brought about this intense emphasis on value will continue to support—and perhaps intensify even further—value as the predominant shopping expectation of the 1980s. We believe that our ability to fulfill the value expectations of our customers will be the single most important determinant of our future success.

Management Strategies

Our management strategies are designed to help us meet one of the most important challenges facing us today—that is, to manage our business for profitable growth in an environment that is rapidly and continually changing.

We intend to meet this challenge by staying on the cutting edge of change—by predicting, understanding and adapting to change so that we can manage it to our advantage. We believe that our management strategies provide effective tools with which to do so.



"Fulfilling the value expectations of our customers is our principal operating strategy and the cornerstone of our corporate strategic plan. It is the number-one merchandising objective of each of our retail businesses...."

Trend Management

Trend management is a strategy that applies the principles of *trend merchandising* to corporate planning. We have long used trend merchandising to respond to fast-changing customer tastes. It is a sound approach to retail management that has enabled us to stay on top of our customers' needs and improve profitability at the same time.

Briefly, trend merchandising identifies distinct phases in the life-cycles of major fashion trends. By managing these phases separately, our merchants are able to devote the proper degree of time and effort to each, thus helping to ensure both customer satisfaction and corporate profitability.

Trend management expands this strategy beyond the selling floor and applies it to *all* aspects of our business. It focuses our attention on what is changing in our environment and forces us to decide how to respond. It helps us to determine at the right time those changes that are becoming more important and those that are decreasing in importance.

Given this focus, we can establish programs and priorities to deal with trends effectively at each point in their development.

Capital Investment Strategy

The application of portfolio management principles to investing in our retail businesses is an effective tool for managing change as it relates to corporate decision making.

We view our operating companies from a financial perspective. They are a portfolio of investment alternatives in which we invest our efforts and resources for the maximum long-term benefit of our shareholders. As investment managers, we can direct future investment in our portfolio to take advantage of new opportunities and to respond to changes in our environment.

Portfolio management also enables us to adjust our business mix so that we can continue to achieve the financial objectives we have set for ourselves.

We believe we can meet our objectives by managing our portfolio to achieve the greatest degree of consistency in earnings growth and return on investment. To accomplish this, we will continue to concentrate our investments in high-performing, value-oriented growth strategies with strong management teams and solid track records of performance.

At the same time, we are continuing to invest considerable management time and effort to ensure that *all* of our operating companies achieve the performance levels of which they are capable.

At present, our plans for investment in our existing businesses through 1987 total $2.4 billion.

New Businesses

The strong strategic position we enjoy today is the direct result of decisions made years ago. In order to sustain and strengthen that position, we encourage a sense of urgency about making decisions today that will provide benefits and strategic strength tomorrow.

We intend to add to our portfolio new businesses that have the potential to make a significant future contribution to corporate earnings.

As a general guideline, we plan to have at the corporate level at least one new business under study or in development at all times. In addition, we will fund the evaluation of approved and related ventures within our operating companies.

Consistent with this commitment is our concept for a new value-priced specialty strategy, Plums...The Elegant Discounter. Plums combines discount retailing with off-price merchandising, one of the fastest-growing formats in our industry. The stores will range between 20,000 and 25,000 square feet and offer moderate to better designer and brand-name apparel for women and men at prices 20% to 50% below conventional stores.

Three Plums stores opened in the Los Angeles area in March. These will be followed by two additional stores in the same market in the fall. Edwin G. Roberts is Chairman and Chief Executive Officer of Plums. Mr. Roberts served as President of The J. L. Hudson Company from 1972 to 1978.

As we look for other potential new businesses, we will give priority consideration to those with a strong value appeal and an emphasis on price, quality and convenience. They must also do something exceptionally well for the consumer, thereby helping to assure a competitive edge.

Because of the strength of our current portfolio, we can require any new business to have a high reward-to-risk ratio. The potential benefit of the venture must significantly exceed the risk to our shareholders.

We believe our strategy for growth is sound. It continues a legacy of long-term planning that has enabled us to become a successful national retail company—and it provides a framework for the continuation of our growth in the complex and challenging times that lie ahead.

Value Merchandising: Responding to Changing Customer Needs

Our principal operating strategy is to offer customers exceptional everyday value.

The following review of operations looks at how our retail companies are executing this strategy by emphasizing those elements of merchandising that best represent value to today's customers—quality goods, competitive prices, convenient and pleasant shopping environments, good selections of timely merchandise, service, expertise and reliability.

Target

Providing customers with the most value for their shopping dollar has been the principal merchandising strategy of Target since it opened its first store over 20 years ago.

At the center of this strategy is Target's merchandise offering—large and consistent assortments of high-quality goods at low everyday prices.

About two-thirds of Target's inventory is made up of convenience-oriented hardlines such as home furnishings, housewares, health and beauty aids, sporting goods, electronics and hardware. The remaining one-third consists of popular-priced fashion softlines, including men's, women's and children's apparel, accessories and jewelry.

Target's objective is to have the market's largest selection of basic merchandise—the everyday goods customers use and want most. A sophisticated computerized inventory replenishment system keeps assortments well-stocked, so that customers are assured of finding what they want, whenever they choose to shop—whether it's basic goods or fashionable merchandise.

The merchandising emphasis is on nationally known brands with a reputation for quality. Examples include Panasonic, Black & Decker, Michelin, Coleman, Stanley, Lee, Wrangler, Rob Roy and Hanes.

Supplementing these well-known branded items is a selection of merchandise that carries Target's own label. These goods are manufactured according to strict standards and tested to ensure that the quality is equal to comparable national brands.

Target's merchandising strategy of high volume, low margins and low expenses allows for a value-pricing structure that assures low everyday prices on nationally branded items—and even lower prices on Target's own label goods.

All merchandise, whether it carries a national brand or a Target label, is backed by an unconditional return policy that stands as a clear example of Target's firm commitment to product quality.

Customer convenience and shopping comfort are also important ingredients of Target's value formula. Target understands that today's consumers try to spend their time as wisely as their money.

From the ground up, Target stores are designed to make the shopping experience as easy and efficient as possible. Store locations are selected on the basis of convenience and accessibility to the largest number of customers. Sites must provide ample parking space and direct access to major thoroughfares.

Inside the store, the Target shopper finds that the superior quality standards which govern merchandise selection are applied to the physical environment as well. Each store is kept clean and neat at all times in compliance with strict chain-wide housekeeping standards. Merchandise departments are clearly marked and located adjacent to related areas, making it possible for customers to follow logical shopping patterns.

Informative and clear department signs and efficient check-out procedures add to the ease of the self-service format that is Target's hallmark. At the same time, sales personnel can provide direct customer assistance in those departments, such as jewelry and electronics, where specialized service may be necessary.

Financial Results

Target's annual revenues increased 17% over the previous year. Operating profit was up 38%, reflecting an improvement in the gross margin rate and increased sales.

Target's operating profit also benefited from a credit for the last-in, first-out (LIFO) inventory accounting method, compared with a charge in 1981.

In 1982, Target acquired lease rights for 33 buildings in California, Arizona and Texas which were previously occupied by retail discount stores. These sites are being remodeled and converted to the Target format, beginning in California, where the majority are located.

Costs resulting from the initial acquisition of the lease rights and subsequent remodeling reduced Target's profits slightly in 1982.

Expansion

Target opened 16 stores in 1982, bringing its total to 167 stores in 20 states. Eleven stores were new-market entries, including Target's first units in Arkansas, Wyoming and Montana. Five stores opened in the Houston, Denver, Minneapolis-St. Paul and Dallas markets.

In 1983, Target plans to open 39 stores. Among them are its first stores in California—eight in San Diego which opened in late February and 19 in Los Angeles scheduled to open in mid-April.

In February, six stores opened in San Antonio, marking Target's entry into that market.

Openings in 1983 also include the first Target stores in Arizona—two units scheduled to begin operations in Tucson in July.

(Millions)	1982	1981	1980
Revenues	$2,412.4	$2,054.3	$1,531.7
Operating Profit*	$ 150.1	$ 108.7	$ 91.1
Stores	167	151	137
Retail Square Feet (000)**	16,261	14,679	13,229

*Operating profit is LIFO earnings from operations before corporate expense, interest expense and income taxes.
**Total square feet less office, warehouse and vacant space.

Value at Target means low everyday prices on large and consistent assortments of high-quality merchandise.


multiple
outlet
strip

Mervyn's

Mervyn's stated mission is to achieve superior financial performance by consistently providing its customers with exceptional value in softline general merchandise. This firm commitment to value has enabled Mervyn's to build one of the most successful regional businesses in the retail industry—and will continue to guide Mervyn's in its drive to become a national retail chain.

Mervyn's interprets value as the proper balance of quality, price, fashion, timeliness and customer service.

Quality at Mervyn's begins with an extensive merchandise offering that emphasizes family softgoods, including men's, women's and children's apparel, shoes and accessories, together with linens, bedding, draperies, housewares and toys.

Nearly half of Mervyn's inventory is made up of selected nationally branded items that have long-standing reputations for quality. The remainder consists of merchandise bearing Mervyn's own label, or other brand names, many of which are created especially for Mervyn's. Before any private-label goods reach the selling floor, they are thoroughly tested to ensure that their quality is up to Mervyn's high standards.

Mervyn's offers this unique mix of quality merchandise at highly competitive prices that deliver real value to a broad spectrum of customers on a day-in, day-out basis.

Prices are even lower on the merchandise featured in Mervyn's weekly advertising tabloid. A Mervyn's tradition and its primary promotional tool, the tabloid spotlights special prices on a selection of items from every department. Each week nearly 6 million copies of the tabloid appear in over 100 newspapers, reaching an audience of more than 10 million shoppers throughout Mervyn's markets.

Fashion is an important part of Mervyn's value merchandising formula. Mervyn's strategy is to introduce emerging trends early in their development, offer them throughout their fashion cycle and then move on to the next trend. This approach enables Mervyn's to be fashion-right and price-right at the same time.

Timeliness in Mervyn's value formula means providing customers the right goods at the right time in the appropriate quantities. In fashion merchandise, it's the looks and styles customers want most—when they want them. In basic merchandise, it's the essential softgoods that value-conscious families need most. And in both fashion and basics, it's large assortments and a commitment to being in stock, creating a depth of merchandise selection that is unmatched in softgoods retailing.

Rounding out Mervyn's value offering is a comprehensive package of customer services usually found only in higher-priced retail formats, including credit, alterations, gift wrapping, layaways, departmental service counters, friendly and knowledgeable sales people and an unconditional return and adjustment policy.

Financial Results

Mervyn's revenues continued to increase at a strong rate in 1982, exceeding expectations and rising 26% over the previous year.

Operating profit was up 27% in 1982. Mervyn's gross margin rate declined slightly from a year ago, reflecting an increase in the promotional environment in many Western markets.

Expansion

Mervyn's grew to 92 stores in eight states with the addition of 12 stores in 1982. Nine are located in California markets. The remainder opened in Tucson and Yuma, Arizona, and Amarillo, Texas.

Mervyn's plans to add 17 stores in 1983. Ten units will open in California, Arizona, Nevada and Colorado. Seven will open in the newly organized South Central territory—five in Dallas and two in Austin.

The South Central territory will support approximately 40 stores planned for Texas between now and 1987, as well as future stores in surrounding states. Construction has begun in Dallas on a distribution center and a headquarters facility which will house a separate management team.

(Millions)	1982	1981	1980
Revenues	$1,335.8	$1,062.3	$826.9
Operating Profit	$ 152.3	$ 119.6	$ 76.3
Stores	92	80	69
Retail Square Feet (000)	7,278	6,278	5,393

Mervyn's offers dominant selections of quality family softgoods at value prices.

Department Stores

Whether they shop at Hudson's or Dayton's in the Midwest or at Diamond's or John A. Brown in the Southwest, getting the greatest value for their time and money is important to Dayton Hudson's department store customers.

Like all consumers, they perceive value to be a complex equation involving several different variables. What sets them apart from other retail customers, however, is the degree of emphasis they place on the element of fashion within that equation.

Department store shoppers have always been fashion conscious—and today's affluent and life-style-oriented customers are more aware of fashion trends than ever. Their interest in fashion extends across all price lines and throughout all merchandise categories, to include apparel and accessories for the entire family, as well as home furnishings and electronics.

To better serve this fashion-oriented customer, Dayton Hudson's department store companies are reaffirming their commitment to the mission they share: to be the leading fashion store in every market in which they operate.

Being a fashion leader means using the proven principles of trend merchandising to anticipate the customer's fashion needs, and then fulfilling those needs by being first in the marketplace with new, exciting and unique merchandise that reflects the life-styles and tastes of the customer. It means offering these trends in dominant assortments and in a shopping environment that is both exciting and convenient.

Each company continues to increase its emphasis on quality—a reflection of the growing importance of this element to the department store shopper's perception of value. Customers want merchandise that is not only fashionable, but also useful and long-lasting. They are applying the principles of "investment dressing" not just to apparel, but to virtually all merchandise purchases. They expect high quality in service, facilities and personnel as well.

Customer service, always a key element in the department store offering, is becoming even more important as a determinant of good value. Dayton Hudson's department store companies have long emphasized customer service as a means of gaining a competitive advantage. Today, they are refining and improving their basic services—and introducing new services such as wardrobe consulting, personal shopping and life-style seminars that are designed to serve the changing needs of their customers.

Strengthening their basic value offering is a major strategic objective of the department stores. Each company is developing and implementing long-term marketing strategies that focus on value-oriented merchandising programs backed by aggressive advertising and in-store promotion.

One major area of emphasis is at the buying level, where an increased effort is being made to select and offer fashionable, high-quality, value-priced items that can deliver both significant and profitable volume to the store and meaningful savings to the customer.

Financial Results

Revenues from the department store group were up 5% in 1982, with all four companies achieving increases for the year.

Earnings improvement at Hudson's and Dayton's resulted in a 27% rise in operating profit for the group. The increase follows an operating profit decline in 1981.

Hudson's reported a 45% increase in operating profit and a 4% rise in revenues. During 1982, Hudson's completed a restructuring of its management organization, resulting in a significant improvement in its operating expense rate. The gross margin rate was down from last year, reflecting a highly promotional environment in department store retailing during 1982.

Dayton's revenues increased 7% over last year. Operating profit was up 16%. An improvement in the operating expense rate was partially offset by a lower gross margin rate.

Diamond's revenues were up 2% over the previous year, but operating profit declined substantially from 1981. Sales were slow in the Tucson and Las Vegas stores. The Phoenix market remained very competitive.

Revenues increased 12% at John A. Brown. Operating profit was down 26% from last year, due to a drop in the gross margin rate and a higher operating expense rate.

Expansion

The department store group opened one new store in 1982, a 103,000-square-foot Hudson's unit in Lansing, Michigan. At year-end, the group was operating 54 stores in 10 states.

In January 1983, Hudson's closed its downtown Detroit store following a steady and long-term decline in sales.

One new store is scheduled to open in 1983. Hudson's will begin operations in a 103,000-square-foot store in Battle Creek, Michigan.

(Millions)	1982	1981	1980
Revenues			
Hudson's	$ 683.8	$ 658.1	$ 641.5
Dayton's	437.3	410.1	382.1
Diamond's	143.0	140.3	123.1
John A. Brown	86.1	77.0	57.2
Total	$1,350.2	$1,285.5	$1,203.9
Operating Profit	$ 114.4	$ 89.9	$ 94.0
Stores			
Hudson's	19	19	18
Dayton's	16	16	16
Diamond's	13	13	10
John A. Brown	6	6	6
Total	54	54	50
Retail Square Feet (000)			
Hudson's	4,535	5,134	5,832
Dayton's	3,348	3,362	3,149
Diamond's	1,563	1,644	1,242
John A. Brown	632	632	632
Total	10,078	10,772	10,855

Dayton Hudson's department stores provide value through fashion and quality leadership and superior customer service.

Specialty Merchandisers

14 A specialized capability to meet customer expectations with a clearly focused merchandise assortment is the essence of value in the specialty merchandisers group—B. Dalton Bookseller and Lechmere.

B. Dalton brings to its customers a merchandise offering of hardcover books and trade and mass-market paperbacks. It adds value to this basic offering through large selections, attractive stores, convenient locations and readily available customer service.

B. Dalton's merchandising strategy is clearly stated: it is committed to being the most complete bookstore in every market in which it operates. The objective of this strategy is to ensure that customers find the books they want, when they want them.

The average B. Dalton store carries more than 22,000 titles in a wide range of categories, with broad assortments in every category. All stock is on display, giving customers a presentation of books from floor to ceiling and from wall to wall.

B. Dalton's large assortments are enhanced by convenient store locations. A wide range of prototypes gives B. Dalton the flexibility to operate stores in a variety of settings and markets.

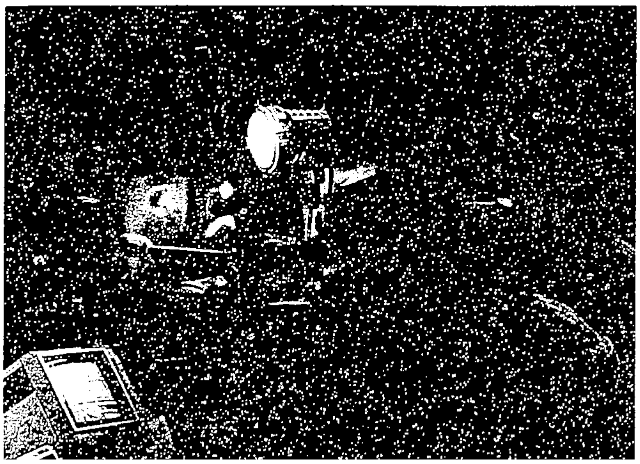
Knowledgeable sales help, special-order and mailing services, gift certificates, gift wrapping and customer mailings form a comprehensive customer-service package that completes B. Dalton's value offering.

Lechmere's objective is to be recognized by customers as having the best everyday values across its four major merchandise categories: consumer electronics, housewares and hardware, major appliances and recreational and leisure-time equipment.

Within the framework of Lechmere's merchandising strategy, overall value is defined as price, quality, service, availability, store location, advertising, selection and home delivery.

While all of these elements combine to form value at Lechmere, the merchandise mix puts an emphasis on price and quality. Lechmere's customers are particularly sensitive to buying the best quality merchandise at the lowest price available. A profit structure of high volume, low margins and low expenses allows for a pricing strategy that can deliver low prices on name-brand merchandise.

Despite this high-volume, self-service format, Lechmere still provides a high level of customer service. Informative signs and overhead television monitors are used to explain unfamiliar products. In most merchandise categories, customers can test different brands of the same product before making a purchase decision.



Financial Results

The specialty merchandisers group reported a 4% revenue increase in 1982. The 1982 results do not include revenues from Dayton Hudson Jewelers, which was sold prior to the start of fiscal 1982. If 1981 revenues from Dayton Hudson Jewelers were excluded from the comparison, the group's 1982 revenue increase would have been 16%.

Operating profit was up 18%, largely on the strength of a sharp increase at Lechmere.

Revenues were up 17% at B. Dalton. Sales were below expectations as economic conditions affected the retail book industry throughout much of the year. Operating profit increased 2% over the previous year.

B. Dalton's expense rate was higher than a year ago, due to lower than anticipated sales.

Lechmere continued to make significant progress in its strategic realignment effort. Revenues were well above expectations, increasing 14% over 1981. Operating profit was up sharply, reflecting significant improvement in both the gross margin and operating expense rates.

Expansion

B. Dalton added 83 stores in 1982. At year-end it was operating 662 stores in 47 states, the District of Columbia and Puerto Rico.

Expansion plans for 1983 call for approximately 60 new B. Dalton units to open.

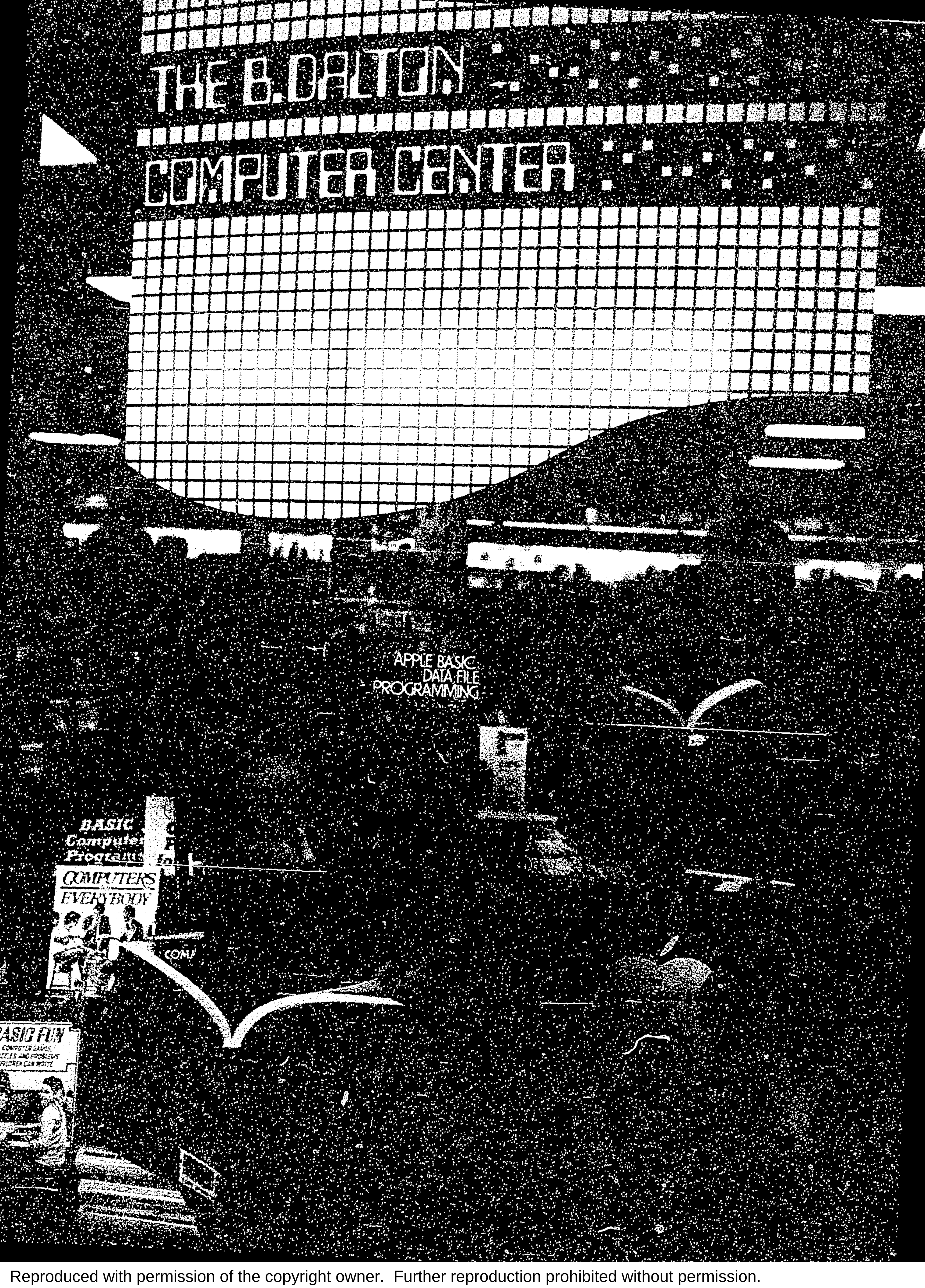
During 1982, Lechmere completed an extensive remodeling of its store in Manchester, New Hampshire. In its new format, the store is serving as a prototype in which new merchandising strategies are being tested for possible use throughout the chain. Customer response to the new format has been very favorable.

(Millions)	1982	1981	1980
Revenues			
B. Dalton Bookseller	$374.3	$319.3	$255.6
Lechmere	188.0	164.8	162.7
Dayton Hudson Jewelers*	—	56.7	52.7
Total	$562.3	$540.8	$471.0
Operating Profit	$ 43.1	$ 36.4	$ 20.1
Stores			
B. Dalton Bookseller	662	579	517
Lechmere	6	6	6
Dayton Hudson Jewelers	—	55	52
Total	668	640	575
Retail Square Feet (000)			
B. Dalton Bookseller	2,332	2,097	1,875
Lechmere	930	992	992
Dayton Hudson Jewelers	—	198	194
Total	3,262	3,287	3,061

*Dayton Hudson Jewelers was sold effective January 30, 1982.

Left: Lechmere features low prices on quality name-brand hardgoods.

Right: B. Dalton is committed to being the most complete bookstore in every market in which it operates.


THE B. DALTON
COMPUTER CENTER
APPLE BASIC
DATA FILE
PROGRAMMING
BASIC
COMPUTERS
EVERYBODY
BASIC FUN

Corporate Governance: The Role of the Board of Directors

A hallmark of Dayton Hudson Corporation is a clearly articulated statement of corporate philosophy that defines our primary objectives: to be premier in every facet of our business and to be innovative and at the forefront of change.

These objectives apply to our management philosophy as well, and specifically to our view of corporate governance—the role of the board of directors in governing our business.

We consider effective corporate governance to be the very foundation of effective corporate management. Accordingly, we believe that our board of directors plays a key role in our success as a corporation.

A Primary Force

The mission statement of the board of directors sets forth its function as follows: *"As representatives of the shareholders, to be the primary force pressing the Corporation to the realization of its opportunities and the fulfillment of its obligations to its shareholders, customers, employees and the communities in which it operates."*

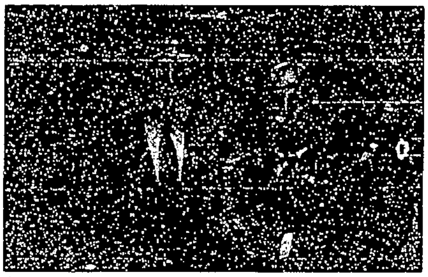
We recognize that our board cannot, by itself, realize our opportunities or fulfill our obligations. It can, however, hold management accountable for doing so.

We also realize that our board cannot be an effective force—let alone the primary one—unless management truly wants and enables it to fulfill that role.

We believe that the understanding and acceptance of these two facts helps lead to optimum interaction between the board of directors and management. We consider that to be a premier relationship—and one we are continually striving to foster.

Our board fulfills its responsibilities by reviewing and approving strategic plans, capital investment, long-range goals, organizational structure and social responsiveness. It also reviews and approves our financial policies and objectives, management incentive plans, selection of board members and top management succession.

Next to selecting the chief executive officer, we believe that allocating capital is the board's most important responsibility. Our entire annual agenda is designed to enable the board to accomplish this crucial task.



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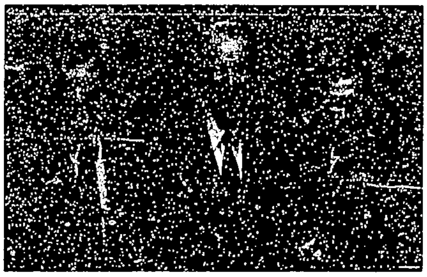

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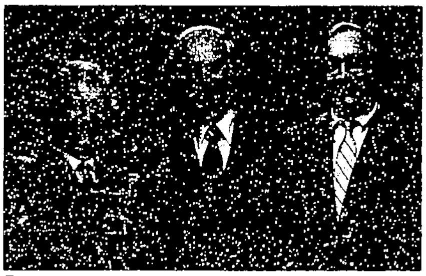


E

Directors:
A. William A. Andres, K. N. Dayton
B. Roger L. Hale, Rand V. Araskog, Donald J. Hall
C. Kenneth A. Macke, David T. McLaughlin, Richard L. Schall
D. Bruce K. MacLaury, Shirley Young, Alva O. Way, Bruce B. Dayton
E. Paul N. Ylvisaker, Howard H. Kehrl, William H. Spoor

Quality Directors

A quality board depends on quality people. Therefore, we seek premier directors.

Specifically, we look for directors who have the following attributes:

- Integrity
- Independence
- Intelligence
- Wisdom
- Professional knowledge
- A proven record of accomplishment
- An inquiring mind
- Candor
- An ability to challenge and stimulate
- An orientation to the future
- A personal commitment

We recognize that quality performance also demands quality participation. A generous commitment of both time and energy is a necessary part of an assignment to our board of directors. We expect our directors to be active partners in the process of governing our business.

We also recognize that independence is essential to effective corporate governance. Our directors must have the necessary freedom and independence to question, challenge and stimulate management.

To ensure board independence, our objective is to have a board made up predominately of directors from outside the day-to-day management of the Corporation.

A Balance of Perspectives

We consider a balance of perspectives to be essential to the effective governance of our Corporation.

To achieve this balance, we make sure that our directors bring to the board a diversity in professional backgrounds and in age and board tenure.

We seek a predominance of business leaders among our outside directors, tempered by qualified individuals who bring a different set of experiences, and thus perspectives, to the deliberations of the board.

We also think that the ideal board has a steady stream of new talent and fresh ideas. Our rotation and retirement policies are designed to meet this objective.

The board policy limits non-management directors to a term of 12 years on the board, with retirement at age 65. It also requires a director whose employment position changes to offer resignation. The board can then decide to accept it or not, depending on whether the new position is as valuable to our board composition as the old.

To facilitate the process of retirement, and to make use of their valuable expertise, we provide consulting contracts to qualified directors for up to 12 years after they leave our board.

The Role of the Executive Committee

We believe that the composition and specific assignments of all our board committees—executive, finance, audit, corporate responsibility and incentive plans—help our directors to perform their duties with maximum effectiveness.

The executive committee, in particular, plays an important role in making our board an effective tool for corporate governance.

The executive committee is made up of the committee chairman, the chief executive officer of the Corporation and all non-management directors.

The committee deals with matters of organization and compensation, focusing particular attention on management strength, performance and succession, and on the organizational strength and effectiveness of the board itself.

We see several important advantages to this structure. First, by having all outside directors serve, we avoid a "two-tier" board, where a small group makes major decisions for the entire board. Second, by including only one management director, the chief executive officer, we provide an effective mechanism for an open dialogue between the CEO and the committee.

We believe that an open and dynamic relationship between the board of directors and management is the best assurance to our shareholders and all of our constituents that the Corporation's future is secure.

Financial Review

Our financial goal is to provide our shareholders with a superior return on their investment while maintaining a conservative financial position. We believe that we can achieve this goal while growing at a rate that is among the highest in our industry.

Financial Objectives

To provide a framework for decision making, we have established three financial objectives and several financial policies. Our financial objectives are:

- To earn an after-tax return on beginning shareholders' equity (ROE) of at least 16%.
- To sustain an annual growth in earnings per share (EPS) of at least 15%.
- To maintain a strong rating of our senior debt.

In 1982, we achieved all of our financial objectives. Our return on beginning shareholders' equity was 16.6%, an increase from 15% in 1981. Earnings per share from continuing retail operations increased 24%, compared with 15% in 1981. Our senior debt continues to carry AA and Aa2 ratings from Standard & Poor's and Moody's, respectively—both strong investment grade ratings.

Return on Investment

We believe that return on investment (ROI) is the most important single measure of financial performance. ROI is the primary financial tool we use to manage our business.

We define ROI as the product of investment turnover and return on sales:

$$\text{ROI} = \frac{\text{Sales}}{\text{Investment}} \times \frac{\text{Earnings}}{\text{Sales}}$$

After-tax ROI from continuing operations was 12.2% in 1982, compared with 11.6% in 1981.

	ROI	=	Investment Turnover	×	Return on Sales
1982	**12.2%**	=	**2.83**	×	**4.32%**
1981	11.6%	=	2.98	×	3.89%

The following table shows the calculation of ROI for 1982 and 1981.

	(Millions of Dollars) 1982	1981
Net earnings from continuing operations	**$ 198.4**	$ 159.5
Interest expense–after tax (a)	**26.3**	13.4
Interest equivalent in leases–after tax (b)	**19.8**	19.6
Earnings from continuing operations before financing costs	**$ 244.5**	$ 192.5
Working capital (c)	**$ 618.5**	$ 423.4
Net property and equipment	**1,031.7**	872.2
Non-current assets of discontinued operations (net)	**12.6**	36.6
Other assets	**7.4**	5.6
Capital leases	**93.9**	100.3
Present value of operating leases	**235.4**	218.5
Total investment at beginning of year	**$1,999.5**	$1,656.6
Return on investment	**12.2%**	11.6%

(a) Interest expense on debt existing at the beginning of the year.
(b) Determined using an after-tax interest rate of 6% on beginning of year capital leases and the present value of operating leases.
(c) Current assets less non-interest bearing current liabilities.

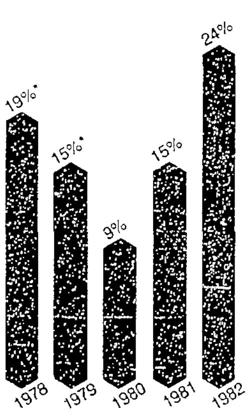
Our future success in achieving our objectives will depend substantially upon our continued effective application of the ROI tool in the following management processes:

Performance Appraisal. Corporate management and the management of each operating company is evaluated and compensated based on return on investment, as well as upon growth in earnings.

Capital Allocation. We allocate capital for expansion based on each operating company's past and projected performance measured against its ROI standard. Additional criteria for allocating capital include the quality of the company's strategic plan, strength of the management team and systems, and development of market position.

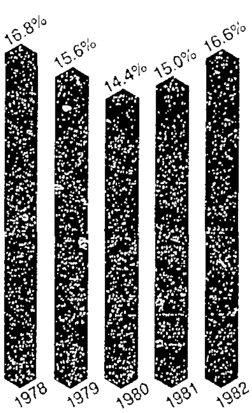
Capital Project Evaluation. All capital projects (including acquisitions) must meet corporate-wide internal rate of return and ROI standards. Capital projects must achieve a 14% ROI by the fifth full year of operation and an internal rate of return over their life of 14%. Audits of results in the years following completion determine whether project performance has met our standards.

Annual EPS Growth (Continuing Operations)

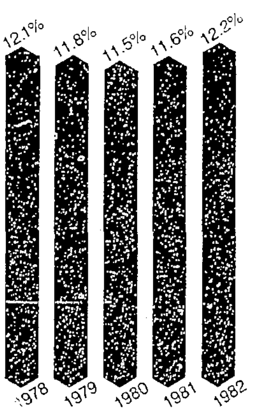


*Excluding the effect of unusual expenses incurred in 1978.

Return on Beginning Shareholders' Equity



Return on Investment (Continuing Operations)



Financial Policies

Consistent with our objective of maintaining a strong rating of our senior debt, we have established a maximum consolidated debt ratio, including capital leases and the present value of operating leases, of 45% of total capitalization.

Our consolidated debt ratio increased to 41% in 1982 from 39% in 1981 and 35% in 1980. We do not expect our debt ratio to exceed 45% during the next five years.

Capitalization	(Millions of Dollars) 1982	1981	1980
Notes payable	$ —	$ 98.6	$ 28.5
Long-term debt (including current portion)	533.1	337.4	221.7
Capital leases (including current portion)	107.9	101.6	109.0
Present value of operating leases	323.5	235.4	218.5
Total debt and equivalent	964.5	773.0	577.7
Deferred items	50.8	33.8	12.5
Equity	1,348.8	1,192.7	1,066.4
Total capitalization	$2,364.1	$1,999.5	$1,656.6
Debt ratio (total debt and equivalent as a percentage of total capitalization)	41%	39%	35%

During 1982 we issued $100 million of 14¾% sinking fund debentures due 2012 and $100 million of 11⅞% sinking fund debentures due 2012. In 1981 we issued $100 million of 15¼% notes due 1991. We used the proceeds from these issues to fund our capital expenditure program.

In addition to the strong ratings on our long-term debt, our commercial paper is rated A-1 by Standard & Poor's and P-1 by Moody's.

The greater part of our growth will continue to be financed with internally generated funds. We will also need to issue additional long-term debt to finance a portion of our future growth. Commercial paper will continue to be used primarily to fund our seasonal working capital requirements.

Because of the lead times required for planning and construction of retail stores, we make commitments for some of our capital projects in advance of the time when the capital expenditures are made. Our financial policies place limits on the amounts of such forward commitments which can be accumulated for future years. It is our intention that these commitments for future expenditures not exceed levels which could be funded by projected internally generated funds.

Capital Investment

We have concentrated our capital expenditures during the last three years in Target, Mervyn's and B. Dalton Bookseller. In 1982, capital investment in retail operations, including the present value of all new capital and operating leases, totaled $395 million. Target's leases on 33 discount store locations account for $84 million of that total.

	(Millions of Dollars) 1982	1981	1980
Capital expenditures	$284	$254	$265
Present value of new operating leases	111	46	35
Total	$395	$300	$300

In 1983, capital investment, including all leases, is expected to total approximately $475 million. For the 1983-87 period, current plans anticipate capital investment of approximately $2.4 billion.

Dividends and Common Stock Price

In support of our goal of providing our shareholders with a superior return on their investment, it is our policy to make regular annual increases in dividends on Common Stock.

Dividends declared in 1982 on our Common Stock totaled $1.15 per share, a 10% increase over the $1.05 per share declared in 1981. The quarterly dividend was increased to $.30 per share for the dividend declared on October 13, 1982. The current annualized rate is $1.20 per share. All dividends have been adjusted to reflect a two-for-one stock split in November 1981.

Dayton Hudson Corporation Common Stock is listed on the New York Stock Exchange and the Pacific Stock Exchange with the symbol DH, and abbreviated in newspaper listings as DayHud. At year-end, the number of Dayton Hudson shareholders of record was 12,256, compared with 11,736 at year-end 1981. On April 6, 1983, there were 12,184 shareholders of record.

	Quarterly Dividend Declared Per Share		Common Stock Price Range			
			1982		1981	
Fiscal Quarter	1982	1981	High	Low	High	Low
First	$ .27½	$ .25	$35⅜	$27⅛	$31⅝	$21¾
Second	.27½	.25	40	33½	31	26⅜
Third	.30	.27½	59⅜	34½	30	26½
Fourth	.30	.27½	64¼	50	30	25⅝
Total Year	$1.15	$1.05	$64¼	$27⅛	$31⅝	$21¾

Analysis of Operations

(Thousands of Dollars, Except Per-Share Data)

We achieved a 24% increase in retail net earnings in 1982 on a 15% growth in revenues. The second year of declining inflation helped us to improve our gross margin rates and reduce operating expense rates. The following table shows the major factors in our earnings growth since 1979.

	1982	1981	1980	1979
Earnings per share—continuing	**$4.12**	$3.33	$2.90	$2.67
Earnings per share—discontinued	**.17**	.29	.18	1.38
Consolidated earnings per share	**$4.29**	$3.62	$3.08	$4.05

Variance analysis (unaudited): Continuing retail operations	1982 vs. 1981	1981 vs. 1980	1980 vs. 1979
Prior year's earnings per share	**$3.33**	$2.90	$2.67
Change in earnings per share due to:			
Revenues	**.72**	.74	.54
Gross margin rate	**.07**	.14	(.26)
Operating expense rate	**.42**	(.02)	(.12)
Interest expense, net	**(.20)**	(.36)	(.08)
Income tax rate	**(.18)**	.02	.14
Corporate expense and other factors	**(.04)**	(.09)	.01
Earnings per share	**$4.12**	$3.33	$2.90

Revenues

All four business segments reported gains in total revenues and in revenues from comparable stores (those open at least 12 months) in 1982. Most of the growth continued to come from Target and Mervyn's. Each year more of our revenues come from Target and Mervyn's and less from our department stores. This results in both lower gross margin and operating expense rates. The impact on earnings has been positive in each of the last three years.

Our 15% revenue growth in 1982 was somewhat less than that of the prior two years for two principal reasons. The addition of 40 Ayr-Way stores in 1980 contributed greatly to Target's growth in both 1980 and 1981. Also, 1982 was a year of very cautious spending by consumers and highly promotional pricing by retailers. Given the recessionary environment, our revenue increases are quite substantial.

We use the Department Stores Inventory Price Index published by the Bureau of Labor Statistics (BLS) to estimate revenue growth due to inflation. The BLS rate dropped to 2.8% in 1982 from 4.7% in 1981 and 6.3% in 1980. In both 1982 and 1981, our comparable-store revenue growth outpaced inflation.

Revenue Increase (Decrease)

	1982		1981		1980	
	All Stores	**Comparable Stores**	All Stores	Comparable Stores	All Stores	Comparable Stores
Target	**17%**	**8%**	34%	11%	37%	8%
Mervyn's	**26**	**11**	28	16	26	13
Department stores	**5**	**4**	7	3	3	(1)
Specialty merchandisers	**4**	**9**	15	7	8	1
Total	**15%**	**7%**	23%	9%	19%	5%

Credit sales accounted for 38% of our total sales, an increase from 37% in the prior two years. About 75% of these credit sales came from internal credit cards. Finance charge revenue increased 29% to $102,229 on internal credit sales of $1,597,297 in 1982. We recorded $79,222 in finance charge revenue on sales of $1,365,857 in 1981, and $64,641 on sales of $1,158,072 in 1980. The provision for bad debts on internal credit sales rose 51% in 1982 to $32,956 due to the strong growth in internal credit, combined with difficult economic conditions.

One measure we use to evaluate the productivity of our stores is revenues per square foot. All four of our business segments reported increases in 1982.

Revenues Per Square Foot* (Unaudited)

(Dollars)	1982	1981	1980
Target	**$156**	$147	$143
Mervyn's	**197**	182	165
Department stores	**130**	119	114
Specialty merchandisers**	**177**	164	155

*Average of beginning- and end-of-year square feet.

**Excluding revenues from Dayton Hudson Jewelers, which was sold effective January 30, 1982.

Gross Margin Rate and Cost of Sales

Our gross margin rate improved in 1982 on the strength of an improvement at Target. The gains in 1981 came from Mervyn's and the specialty merchandisers. Declines at Target and Mervyn's in 1980 accounted for that year's lower overall rate.

Any change in our margin rate is the result of two elements: changes in the margin rates at the individual operating companies and the change in our business mix. The increase in the share of revenues coming from Target partially masked the gains in gross margin rates made by our companies in 1982 and 1981, and overstated the deterioration in 1980. If our business mix had remained constant from year to year, the change in earnings per share due to gross margin rates would have been $.23 in 1982, $.35 in 1981 and $(.10) in 1980.

A major factor in our cost of sales is the inflation rate. We reflect inflation's impact by using the last-in, first-out (LIFO) method of inventory valuation. The continued decline in the inflation rate during 1982 contributed to the improvements in our gross margin rates.

Operating Expenses

Our overall operating expense rate was 27.9% of sales, down from 28.5% in the prior two years. The largest component of our operating expenses is selling, publicity and administrative costs.

In 1982, our policy of expense control and easing inflationary pressures helped us to reduce operating expense rates in all segments except Mervyn's, which had reduced its expense rate in the previous year. At the same time, the change in our business mix had a positive impact on our overall expense rate in all three years. This shift improved earnings per share by $.27 in 1982, $.30 in 1981 and $.19 in 1980.

Start-up Expense (Unaudited)

	1982	1981	1980
Target	**$16,300**	$12,600	$10,200
Mervyn's	**5,900**	4,100	3,300
Department stores	**2,400**	4,100	3,700
Specialty merchandisers	**2,300**	2,000	1,600
Total	**$26,900**	$22,800	$18,800

Start-up expenses include personnel costs, taxes incurred during construction and other construction-related expenses that are not capitalized. Although we opened fewer new stores in 1982 and 1981 than in 1980, we had higher start-up costs in both 1982 and 1981. In 1981, we remodeled 40 Ayr-Way stores acquired in 1980. In 1982, Target's start-up expenses rose again due to the conversion of 33 discount stores for which Target acquired leases during the year.

Interest Expense

Our interest cost has grown significantly in each of the last three years as we have increased external financing to support our expansion. The expense is reduced by that portion of interest cost which is capitalized and by interest income, which results from the temporary investment of proceeds from debt issues and from seasonal cash flows. In 1980 there was also income on proceeds from real estate sales.

	1982	1981	1980
Interest cost incurred	**$65,414**	$45,087	$21,330
Interest cost capitalized	**(6,944)**	(6,022)	(8,057)
Interest expense	**58,470**	39,065	13,273
Interest income	**(4,501)**	(2,447)	(8,066)
Net expense	**$53,969**	$36,618	$ 5,207

Income Tax Rate

Our effective income tax rate for retail operations rose to 46.8% in 1982. The lower tax rates in 1981 and 1980 are the result of benefits from Ayr-Way purchase accounting items and higher investment tax credits. Our effective tax rates for 1982, 1981 and 1980 vary from the Federal statutory rate as follows:

	1982	1981	1980
(Percent of Earnings Before Income Taxes)			
Statutory rate	**46.0%**	46.0%	46.0%
State income taxes, net of Federal tax benefit	**3.9**	4.0	4.2
Investment tax credit*	**(3.2)**	(4.8)	(5.0)
Other	**0.1**	(.7)	(.4)
Effective tax rate	**46.8%**	44.5%	44.8%

*Investment tax credits were $11,867 in 1982, $13,859 in 1981 and $12,615 in 1980.

The components of the provision for income taxes for the last three years are:

	1982	1981	1980
Current:			
Federal	**$102,586**	$ 82,158	$ 76,497
State	**18,136**	16,355	15,817
	120,722	98,513	92,314
Deferred:			
Federal	**46,430**	26,722	17,882
State	**7,434**	2,772	1,846
	53,864	29,494	19,728
Total	**$174,586**	$128,007	$112,042

We provide deferred income taxes for income and expenses which are recognized in different years for financial and tax reporting. The timing differences comprising our deferred tax provision are:

	1982	1981	1980
Excess of tax over book depreciation	**$14,984**	$18,360	$ 9,562
Deferred income on installment sales	**31,578**	15,170	6,155
Capitalized interest	**3,472**	2,805	4,069
Repurchase of debentures	**—**	—	1,418
Write-down of assets	**5,029**	(8,767)	(621)
Lease capitalization	**(755)**	(822)	(744)
Other	**(444)**	2,748	(111)
Provision for deferred taxes	**$53,864**	$29,494	$19,728

Significant Events

□ *Hudson's Store Closing*

In January 1983, Hudson's closed its downtown Detroit store, in accordance with long-standing plans. Hudson's continues to operate 19 other department stores in Michigan, Indiana and Ohio.

□ *Target Lease Acquisitions*

In August 1982, Target entered into agreements covering 33 discount store locations in California, Arizona and Texas. Because we have been incurring rent and start-up expenses while the stores were closed for remodeling, they had a negative impact on our 1982 earnings of $.16 per share.

□ *Sale of Dayton Hudson Jewelers*

Effective January 30, 1982, we sold all of the assets of Dayton Hudson Jewelers for cash and the assumption of certain liabilities. The sale resulted in a gain of $7,452, most of which was recognized during 1982. The company was one of three in our specialty merchandisers segment. Our 1981 Consolidated Results of Operations include $56,646 in revenues and $2,620 in operating profit from Dayton Hudson Jewelers.

□ *Common Stock Split*

On October 14, 1981, the Board of Directors authorized a two-for-one stock split effected in the form of a 100% stock dividend payable November 30, 1981, to shareholders of record November 6, 1981. All earnings per share, dividends per share and average common shares outstanding presented in this report reflect the stock split.

□ *Acquisition*

On October 10, 1980, we purchased all of the capital stock and certain related assets of Ayr-Way Stores Corporation for cash and the assumption of certain indebtedness. Our Consolidated Results of Operations include Ayr-Way's operating results since September 7, 1980, the effective date of the acquisition.

□ *Discontinued Operations*

In 1978, we announced plans to dispose of our real estate business. Since that time, most of our real estate assets have been sold. The only assets remaining to be sold are interests in a smaller regional shopping center and in various undeveloped land parcels.

Our 1981 results include a net gain of $13,860 from the sale of interests in four regional shopping center projects. During 1982, we recognized additional gains on earlier sales, as well as small gains on the sale of two shopping center properties and some land parcels.

Quarterly Results (Unaudited)

We follow the same accounting policies in preparing our quarterly financial data as we do in preparing our annual data, with the following modifications:

- We expense costs of opening new stores evenly throughout the year in which they are incurred.
- We recognize real estate taxes, bonuses, professional fees and pension plan expense throughout the year based on anticipated annual amounts.
- We accrue charitable contribution expense based on taxable income.
- We incur additional rental expense on most of our leased stores if the stores' annual sales exceed certain stipulated amounts. We estimate and record this additional rent each month based on actual monthly sales.
- We use our anticipated effective annual tax rate to compute income taxes on our quarterly earnings. Income taxes relating to significant gains from property sales are computed separately.
- During the year, we forecast our annual LIFO expense based on estimates of three factors: inflation rates (based on the Bureau of Labor Statistics annual index for retail inventories), inventory levels and initial mark-up levels. We allocate the projected expense to the quarters based on our historical experience of quarterly sales. In the fourth quarter of each year, we record an adjustment reflecting the difference between our estimates and actual LIFO expense. In both 1982 and 1981, our final annual LIFO expense was significantly below our quarterly estimates, as a result of changes in all three factors. The following table shows the LIFO impact on earnings per share as we reported it and as it would have been if we had known the final inflation rates, inventory levels and mark-up rates when we made our quarterly accruals.

	As Reported			Reallocated		
Quarter	**1982**	1981	1980	**1982**	1981	1980
First	**$.08**	$.09	$.07	**$ —**	$.04	$.07
Second	**.07**	.10	.09	**—**	.05	.09
Third	**—**	.08	.12	**.01**	.05	.09
Fourth	**(.13)**	(.05)	.10	**.01**	.08	.13
Total Year	**$.02**	$.22	$.38	**$.02**	$.22	$.38

Our sales growth was steady throughout 1982. Consolidated gross margin rates were lower than last year for the first and second quarters, and ahead of 1981 in the third and fourth quarters. (These comparisons are based on gross margins that have been adjusted for the reallocation of LIFO expense described above.) Our overall operating expense rate was better than last year for each quarter except the third. Net earnings in the first and second quarters of 1982 benefited from the recognition of additional gains from the 1981 sale of Dayton Hudson Jewelers.

Business Segment Trends

The mix of our business operations is steadily changing, as Target and Mervyn's grow at a much faster rate than our department stores or our specialty merchandisers. The business segment data on the next page quantify the shift into the newer, high-growth strategies.

This shift is the result of directing the majority of our capital investment to those parts of our business which offer the highest returns and potential for growth. In 1982, 48% of our capital expenditures went to Target and 34% to Mervyn's. In return, these two segments provided 66% of both our revenues and operating profit.

In 1977, 29% of our revenues came from Target, 15% from Mervyn's, and 42% from the department store group. Since then, Target's revenues have grown at a compound annual rate of 27%, and Mervyn's at 29%, while the department stores have grown at a compound annual rate of 5%. Their respective proportions of total 1982 revenues are 43%, 24% and 24%.

Target's operating profit, which was 22% of our total in 1977, has grown at a compound annual rate of 26% since then. Target contributed 33% of our operating profit in 1982. Mervyn's contribution has grown from 17% in 1977 to 33% in 1982, and at a compound annual rate of 32%. In the same period, the department stores' operating profit grew at 2% a year, and their proportion of the total dropped from 48% to 25%.

Our smallest segment, the specialty merchandisers, has maintained compound annual growth rates of 10% for revenues and 9% for operating profit over the last five years. Their relative contribution has declined slightly during that period.

(Millions of Dollars, Except Per-Share Data)	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Total Year	
	1982	1981	**1982**	1981	**1982**	1981	**1982**	1981	**1982**	1981
Revenues	**$1,123.3**	$976.5	**$1,242.1**	$1,096.8	**$1,362.5**	$1,195.2	**$1,932.8**	$1,674.4	**$5,660.7**	$4,942.9
Gross profit*	**$ 322.6**	$286.5	**$ 361.6**	$ 317.4	**$ 413.9**	$ 355.8	**$ 604.8**	$ 500.9	**$1,702.9**	$1,460.6
Net earnings										
Continuing	**$ 16.5**	$ 13.5	**$ 26.3**	$ 18.0	**$ 38.1**	$ 31.9	**$ 117.5**	$ 96.1	**$ 198.4**	$ 159.5
Discontinued	**5.3**	13.3	**—**	.1	**.8**	.2	**2.2**	.3	**8.3**	13.9
Consolidated	**$ 21.8**	$ 26.8	**$ 26.3**	$ 18.1	**$ 38.9**	$ 32.1	**$ 119.7**	$ 96.4	**$ 206.7**	$ 173.4
Earnings per share										
Continuing	**$ .34**	$ .28	**$ .55**	$ .38	**$ .79**	$ .67	**$ 2.44**	$ 2.00	**$ 4.12**	$ 3.33
Discontinued	**.11**	.28	**—**	—	**.02**	—	**.04**	.01	**.17**	.29
Consolidated	**$ .45**	$ .56	**$ .55**	$ .38	**$ .81**	$ .67	**$ 2.48**	$ 2.01	**$ 4.29**	$ 3.62

*Gross profit is revenues less cost of retail sales, buying and occupancy

Business Segment Comparisons

(Millions of Dollars)	1982	1981	1980	1979	1978	1977
Revenues						
Target	$2,412.4	$2,054.3	$1,531.7	$1,120.5	$ 898.7	$ 729.0
Mervyn's	1,335.8	1,062.3	826.9	655.9	479.5	369.0
Department stores	1,350.2	1,285.5	1,203.9	1,173.8	1,172.3	1,053.3
Specialty merchandisers	562.3	540.8	471.0	434.6	411.4	343.4
Total	$5,660.7	$4,942.9	$4,033.5	$3,384.8	$2,961.9	$2,494.7
Operating Profit						
Target	$ 150.1	$ 108.7	$ 91.1	$ 72.9	$ 61.4	$ 46.4
Mervyn's	152.3	119.6	76.3	68.6	44.5	37.4
Department stores	114.4	89.9	94.0	103.0	115.3	104.1
Specialty merchandisers	43.1	36.4	20.1	23.6	30.5	27.6
Total	459.9	354.6	281.5	268.1	251.7	215.5
Corporate expense	22.1	20.0	17.6	22.0	18.8	13.2
Interest (income) expense	54.0	36.6	5.2	(1.1)	8.2	9.9
Interest expense on capital leases	10.8	10.5	8.4	6.5	6.0	5.2
Unusual expenses	—	—	—	—	19.8	—
Earnings before income taxes	373.0	287.5	250.3	240.7	198.9	187.2
Provision for income taxes	174.6	128.0	112.1	114.2	101.3	95.5
Net earnings:						
Continuing operations	198.4	159.5	138.2	126.5	97.6	91.7
Discontinued operations	8.3	13.9	8.5	65.6	167.3	6.2
	$ 206.7	$ 173.4	$ 146.7	$ 192.1	$ 264.9	$ 97.9
Operating profit as a percent of revenues						
Target	6.2%	5.3%	5.9%	6.5%	6.8%	6.4%
Mervyn's	11.4%	11.3%	9.2%	10.5%	9.3%	10.1%
Department stores	8.5%	7.0%	7.8%	8.8%	9.8%	9.9%
Specialty merchandisers	7.7%	6.7%	4.3%	5.4%	7.4%	8.0%
Assets						
Target	$1,056.2	$ 886.2	$ 708.4	$ 443.9	$ 331.2	$ 261.5
Mervyn's	821.3	597.4	434.3	322.8	218.4	155.2
Department stores	819.5	787.7	734.1	686.1	683.6	626.4
Specialty merchandisers	241.8	204.5	224.8	205.4	185.9	151.2
Corporate	36.3	64.7	17.9	93.7	66.2	51.6
	2,975.1	2,540.5	2,119.5	1,751.9	1,485.3	1,245.9
Discontinued operations (net*)	9.0*	14.7*	35.7*	41.3*	152.2	165.5
Total	$2,984.1	$2,555.2	$2,155.2	$1,793.2	$1,637.5	$1,411.4
Depreciation						
Target	$ 42.1	$ 35.2	$ 21.8	$ 13.7	$ 9.8	$ 8.8
Mervyn's	23.6	17.3	12.9	8.4	4.9	3.8
Department stores	31.2	29.8	25.0	22.3	20.7	19.7
Specialty merchandisers	10.4	9.5	7.6	5.8	4.6	3.8
Corporate	.6	.4	.4	.4	.4	.3
	107.9	92.2	67.7	50.6	40.4	36.4
Less depreciation on capital leases	7.9	8.1	8.2	6.9	6.0	5.2
Total	$ 100.0	$ 84.1	$ 59.5	$ 43.7	$ 34.4	$ 31.2
Capital expenditures						
Target	$ 137.5	$ 118.9	$ 125.7	$ 102.9	$ 63.7	$ 38.2
Mervyn's	95.7	68.4	67.5	46.4	34.5	10.5
Department stores	27.8	46.5	51.8	46.1	44.7	43.4
Specialty merchandisers	18.6	18.7	20.0	22.5	13.1	10.5
Corporate	4.2	1.2	.2	.3	.1	2.3
	283.8	253.7	265.2	218.2	156.1	104.9
Less expenditures on capital leases	11.9	—	.4	6.9	20.0	10.0
Total	$ 271.9	$ 253.7	$ 264.8	$ 211.3	$ 136.1	$ 94.9

Consolidated Results of Operations

(Thousands of Dollars, Except Per-Share Data)	1982	1981	1980
Revenues	$5,660,729	$4,942,859	$4,033,536
Costs and expenses			
Cost of retail sales, buying and occupancy	3,957,861	3,482,027	2,844,099
Selling, publicity and administrative	984,141	883,811	734,322
Depreciation	100,039	84,089	59,536
Rental expense	78,235	69,253	58,304
Interest expense, net	53,969	36,618	5,207
Interest and depreciation on capital leases	18,648	18,536	16,637
Taxes other than income taxes	94,882	81,018	65,147
	5,287,775	4,655,352	3,783,252
Earnings from continuing operations before income taxes	372,954	287,507	250,284
Provision for income taxes			
Current	120,722	98,513	92,314
Deferred	53,864	29,494	19,728
	174,586	128,007	112,042
Net earnings from continuing operations	198,368	159,500	138,242
Earnings from discontinued operations (net of income taxes of $3,527, $6,032 and $3,260)	8,348	13,920	8,477
	$ 206,716	$ 173,420	$ 146,719
Net earnings per share			
Continuing operations	$ 4.12	$ 3.33	$ 2.90
Discontinued operations	.17	.29	.18
	$ 4.29	$ 3.62	$ 3.08

These financial statements should be read in conjunction with information contained in pages 20-23 and 28-31.

Consolidated Statements of Financial Position

Dayton Hudson Corporation and Subsidiaries

(Thousands of Dollars)	1982	1981
	January 29, 1983	January 30, 1982
Assets		
Current assets		
Cash	$ 43,183	$ 17,412
Marketable securities	1,000	11,000
Accounts receivable (net of allowance for doubtful accounts of $26,474 and $22,956)	828,433	665,162
Merchandise inventories (net of accumulated LIFO provision of $137,323 and $135,921)	784,949	663,074
Other	14,850	50,754
Discontinued segment, net	(773)	2,143
	1,671,642	1,409,545
Property and equipment		
Land	155,039	139,545
Buildings and improvements	862,186	756,099
Fixtures and equipment	521,129	439,469
Construction in progress	88,552	49,421
Accumulated depreciation	(431,213)	(352,801)
	1,195,693	1,031,733
Property under capital leases, net	97,906	93,919
Discontinued segment, net	9,840	12,546
Other	9,066	7,425
	$ 2,984,147	$ 2,555,168
Liabilities and shareholders' investment		
Current liabilities		
Notes payable	$ —	$ 98,581
Accounts payable (including outstanding drafts of $101,527 and $89,185)	449,546	365,667
Accrued liabilities	258,158	228,417
Income taxes payable	92,457	85,187
Deferred income taxes–installment sales	143,363	111,785
Current portion of capital lease obligations and long-term debt	9,771	11,000
	953,295	900,637
Capital lease obligations	102,383	96,250
Long-term debt	528,871	331,825
Other	50,835	33,775
Shareholders' investment		
Preferred Stock	—	112
Common Stock	48,252	48,046
Additional paid-in capital	48,132	43,904
Retained earnings	1,253,011	1,101,717
Treasury Stock	(632)	(1,098)
	1,348,763	1,192,681
	$ 2,984,147	$ 2,555,168

These financial statements should be read in conjunction with information contained in pages 20-23 and 28-31.

Consolidated Statements of Changes in Financial Position

Dayton Hudson Corporation and Subsidiaries

(Thousands of Dollars)	1982	1981	1980
Operations			
Income from continuing operations	**$198,368**	$159,500	$138,242
Depreciation and amortization	**108,083**	92,314	67,977
Deferred taxes	**22,286**	14,324	8,550
Provided by operations	**328,737**	266,138	214,769
Discontinued segment	**13,970**	35,017	14,044
Funds provided internally	**342,707**	301,155	228,813
Investment activities and distribution to shareholders			
Expenditures for property and capital leases	**283,792**	253,733	265,170
Acquisition of Ayr-Way**	**—**	—	43,506
Disposal of property and capital leases	**(5,751)**	(7,702)	(6,695)
Increase in working capital*	**96,774**	192,038	58,612
Dividends	**55,422**	50,487	45,448
Funds used for investment activities and distribution to shareholders	**430,237**	488,556	406,041
Net financial requirements	**$ 87,530**	$187,401	$177,228
Financing activities			
Decrease (increase) in cash and marketable securities	**$ (15,771)**	$ (33)	$ 66,439
Additions to long-term debt	**202,724**	124,470	110,900
Reductions of long-term debt	**(7,016)**	(8,799)	(19,065)
Increase (decrease) in notes payable	**(98,581)**	70,099	28,482
Increase (decrease) in capital lease obligations	**6,243**	(7,093)	(9,766)
Other	**(69)**	8,757	238
Net financing provided	**$ 87,530**	$187,401	$177,228
***Analysis of changes in working capital:**			
Accounts receivable	**$163,271**	$108,747	$ 34,983
Merchandise inventories	**121,875**	119,273	119,121
Other current assets	**(35,904)**	37,930	2,889
Accounts payable and accrued liabilities	**(113,620)**	(40,364)	(91,871)
Income taxes—payable and current deferred	**(38,848)**	(33,548)	(6,510)
Increase in working capital	**$ 96,774**	$192,038	$ 58,612
****Analysis of Ayr-Way acquisition:**			
Capital leases			$ 44,615
Property and equipment			40,222
Capital lease obligations			(39,665)
Long-term debt			(6,069)
Other			4,403
			$ 43,506

These financial statements should be read in conjunction with information contained in pages 20-23 and 28-31.

Consolidated Statements of Shareholders' Investment

Dayton Hudson Corporation and Subsidiaries

(Thousands of Dollars)	Total	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock
Balance February 2, 1980	$ 962,611	$453	$ 23,743	$60,902	$ 877,513	$
Net earnings:						
Continuing operations	138,242				138,242	
Discontinued operations	8,477				8,477	
Dividends declared:						
Preferred Stock	(203)				(203)	
Common Stock	(45,245)				(45,245)	
Preferred Stock and stock option activity	2,486	(226)	133	2,579		
Balance January 31, 1981	1,066,368	227	23,876	63,481	978,784	
Net earnings:						
Continuing operations	159,500				159,500	
Discontinued operations	13,920				13,920	
Dividends declared:						
Preferred Stock	(106)				(106)	
Common Stock	(50,381)				(50,381)	
Treasury Stock, Preferred Stock and stock option activity	3,380	(115)	184	4,409		(1,098)
Two-for-one stock split			23,986	(23,986)		
Balance January 30, 1982	1,192,681	112	48,046	43,904	1,101,717	(1,098)
Net earnings:						
Continuing operations	198,368				198,368	
Discontinued operations	8,348				8,348	
Dividends declared:						
Preferred Stock	(61)				(61)	
Common Stock	(55,361)				(55,361)	
Treasury Stock, Preferred Stock and stock option activity	4,788	(112)	206	4,228		466
Balance January 29, 1983	$1,348,763	$ 0	$ 48,252	$48,132	$1,253,011	$ (632)

Preferred Stock
Authorized 200,000 shares, voting, without par value; no shares outstanding at January 29, 1983; at January 30, 1982, 952 shares of $5 Cumulative Convertible Preferred Stock and 10,300 shares of $6 Cumulative Convertible Preferred Stock were outstanding.

Common Stock
Authorized 60,000,000 shares $1 par value; 48,251,619 shares issued, 13,837 in treasury and 48,237,782 outstanding at January 29, 1983; 48,045,635 shares issued, 41,626 in treasury and 48,004,009 outstanding at January 30, 1982.

These financial statements should be read in conjunction with information contained in pages 20-23 and 28-31.

Summary of Accounting Policies

Consolidation. Our financial statements include the accounts of Dayton Hudson Corporation and subsidiaries, all of which are wholly owned, after elimination of material intercompany balances and transactions.

Marketable Securities. We record short-term investments at cost, which approximates market.

Accounts Receivable and Allowance for Losses. Our policy is to write off accounts receivable when any portion of the balance is 12 months past due, or when the required payments have not been received for six consecutive months. We base our allowance for uncollectible customer accounts receivable on our past experience with bad debts and on the ages of the various accounts.

All customer receivables are classified as current assets, including some which are due after one year. This is consistent with the practices of other retailers.

For financial reporting, we recognize gross profit on retail installment sales when the sales are recorded. For income tax purposes, we use the installment method of reporting profit on installment sales.

Inventories. Inventories and the related cost of sales are accounted for by the retail inventory method using the last-in, first-out (LIFO) basis.

Property and Equipment. Property and equipment is recorded at cost less accumulated depreciation. For financial reporting, we compute depreciation on our property using the straight-line method. For tax purposes, we use accelerated depreciation or the accelerated cost recovery system (ACRS).

Investment Tax Credit. The investment tax credit reduces income taxes in the year we begin using the property.

Financing Costs. We amortize expenses incurred in obtaining long-term financing over the term of the related debt.

Per-Share Data. To compute net earnings per share from continuing operations, we deduct Preferred Stock dividends from net earnings and then divide by the weighted average number of common shares outstanding. For earnings per share from discontinued operations, we divide net earnings from discontinued operations by the same number of shares. Exercise of stock options and stock appreciation rights and earnout of performance shares would not materially dilute earnings per share.

Fiscal Year. Our fiscal year ends on the Saturday nearest January 31:

Fiscal Year	Ended	Weeks
1982	January 29, 1983	52
1981	January 30, 1982	52
1980	January 31, 1981	52

Any references to years in this report relate to fiscal years rather than to calendar years.

Reclassification of Accounts. We have reclassified some of the prior year's account balances to be consistent with 1982 classifications. None of the reclassifications affected net earnings.

Debt and Leases

(Thousands of Dollars, Except Per-Share Data)

As shown on page 19, our capital structure at the end of 1982 included $964,500 of debt and debt equivalents (capital and operating leases). This section provides more information on these components of our capital structure.

Lines of Credit

We had no commercial paper or short-term notes payable outstanding at January 29, 1983. During the year, the average amount of commercial paper outstanding was $101,966, at a weighted average interest rate of 12.6%. We maintained $79,500 of unsecured lines of credit with 16 banks. Borrowings under these lines are at the prime interest rate or at other rates agreed upon at the time of the borrowings. We compensate the banks for the lines of credit through the payment of fees. During 1982, our line agreements required us to pay fees of $280 and to maintain average compensating balances of $697. These balances were available for withdrawal throughout the year, and they served as part of our operating cash balance.

At year-end, we also had additional credit available in the form of two annually renewable, three-year revolving-credit agreements: one for $175,000 with 11 lending institutions, and one for $75,000 with five lending institutions. In each case, we pay a fee for this availability and have the option of borrowing at the prime rate, at a premium over the London Inter-Bank Offered Rate, or at a premium over domestic certificate-of-deposit rates. Any balance outstanding under the agreements at the end of the three-year period may be converted at our option into a four-year term loan. There were no balances outstanding at January 29, 1983.

Long-Term Debt

We added significantly to our long-term debt during 1982. At year-end, long-term debt due beyond one year was:

	Jan. 29, 1983	Jan. 30, 1982
Sinking Fund Debentures	**$313,238**	$115,870
Sinking Fund Notes	**49,100**	50,000
Other Unsecured Notes—maturing at various dates to 2011 and bearing interest from 6% to 15¼%	**129,099**	126,813
Mortgage Notes—notes and contracts for purchase of real estate, payable over periods ranging to 30 years from inception and bearing interest from 5½% to 14%	**37,434**	39,142
Total	**$528,871**	$331,825

Principal payments on this long-term debt over the next five years will be $4,244 in 1983, $4,851 in 1984, $6,773 in 1985, $6,814 in 1986 and $6,890 in 1987.

29

Sinking Fund Debentures. In June of 1982, we issued $100,000 of 14¾% sinking fund debentures due 2012. In October of 1982, we issued $100,000 of 11⅞% sinking fund debentures due 2012. We are required to retire $4,000 per year of the first issue beginning in 1988, and $5,000 per year of the second issue beginning in 1993.

The third major sinking fund debenture issue outstanding is a $100,000 issue of May 1980, at 10⅞%. Annual retirements of $6,650 will begin in 1991. Two other issues of sinking fund debentures were also outstanding at January 29, 1983: $4,587 at 7¾% and $8,651 at 9¾%. These debentures are redeemable through minimum annual sinking fund payments of $1,250 each.

Sinking Fund Notes. The balance of $49,100 at January 29, 1983, represents borrowings under a private placement agreement at an interest rate of 8⅜%. Annual principal repayments of $900 begin in 1983, increase to $3,200 in 1985 and continue until 1999.

Other Unsecured Notes. In November 1981, we issued $100,000 of 15¼% notes due 1991. These notes are prepayable at par anytime after November 15, 1986. Also included in Other Unsecured Notes are several industrial development revenue bonds: three issued in 1982 totaling $2,500, six in 1981 totaling $14,000 and two in 1980 totaling $10,900. Various other unsecured obligations of varying maturities make up the balance of this category.

Covenants and Collateral. In most of our long-term debt agreements, as well as the revolving credit agreements, we have agreed to observe certain covenants at the request of the lenders. Among these are provisions relating to working capital, funded debt, dividends and secured debt. Under the most restrictive of these provisions, $472,038 of our retained earnings at the end of 1982 was available for dividends and other types of restricted payments.

As a condition of borrowing under our mortgage notes and contracts, we have pledged related land, buildings and equipment as collateral. At January 29, 1983, $49,850 of our fixed assets served as collateral for these loans.

Leases

We own the majority of our Target and department stores, and lease most of our Mervyn's and specialty merchandising stores.

For financial reporting, we classify leases as either operating or capital leases. Capital leases are recorded as assets on our Statements of Financial Position and we report interest and depreciation expense on the leases instead of rent expense. Operating leases are not capitalized, and lease rentals are expensed. For tax purposes, we deduct rent expense on all leases.

Most Mervyn's and specialty merchandising store leases are classified as operating leases. Most of the lease agreements for our department and Target stores are capital leases. In addition, Mervyn's has capital leases with remaining terms ranging up to six years on equipment. Many of our longer-term leases include options to renew, with renewal terms varying from five to 40 years. Certain leases also include options to purchase the property.

The detail of leased property and equipment which we have capitalized on our Statements of Financial Position is:

	Jan. 29, 1983	Jan. 30, 1982
Real property	**$120,910**	$111,703
Equipment	**25,791**	30,008
Accumulated depreciation	**(48,795)**	(47,792)
Total	**$ 97,906**	$ 93,919

If we were to capitalize the minimum lease payments for all of our operating and capital leases with initial terms of over one year, using incremental interest rates at the inception of the leases, the present value of these payments would be approximately $431,400 at January 29, 1983, and $337,100 at January 30, 1982.

The impact of recording depreciation and interest expense rather than rent on the capital leases has been to decrease our earnings by $.02 per share in each of the last three years. Capital lease depreciation expense was $7,875 in 1982, $8,079 in 1981 and $8,225 in 1980.

The majority of our leases entitle the lessor to receive additional rent if sales of the leased stores exceed certain stipulated amounts. The additional rents are referred to as percentage rents because they are usually based on a percentage of any sales over the stipulated levels. Real estate taxes, insurance and other expenses may be covered by our rental payment or charged in addition to rent. In either case, we have included these expenses in Occupancy Costs in our Results of Operations.

Composition of Rental Expense

	1982	1981	1980
Minimum rents on long-term operating leases	**$52,078**	$41,400	$35,957
Short-term rentals	**13,021**	14,758	10,985
Percentage rents:			
Operating leases	**15,764**	15,323	12,881
Capital leases	**1,427**	1,137	1,070
Less sublease income	**(1,609)**	(1,363)	(1,131)
Less executory costs	**(2,446)**	(2,002)	(1,458)
Net expense	**$78,235**	$69,253	$58,304

Future minimum lease payments which must be made under long-term lease agreements considered noncancellable as of the end of 1982 are:

	Operating Leases	Capital Leases
1983	$ 60,414	$ 17,724
1984	57,880	17,031
1985	55,687	16,082
1986	52,469	15,712
1987	48,347	14,687
After 1987	381,717	170,447
Total minimum lease payments (a)	$656,514	251,683
Less: Executory costs		13,239
Interest		130,534
Capitalized lease obligations, including current portion of $5,527		$107,910

(a) Minimum rental payments have not been reduced by minimum sublease rentals due in the future under noncancellable subleases ($2,438 for operating leases, $9,391 for capital leases).

Commitments and Contingencies

Commitments for construction of new facilities and the purchase of real estate amounted to approximately $81,724 at January 29, 1983. We had additional commitments of $62,343 for equipment purchases.

Our contingent liability for mortgage debt on certain office properties sold in 1976 and the shopping centers sold in 1978 was approximately $46,500 at January 29, 1983. The purchasers have indemnified us for any costs we might incur in relation to the mortgages.

The nature and scope of our business brings our properties, operations and representatives into regular contact with the general public and a variety of other business and governmental entities, all of which subject us to exposure to litigation arising out of the ordinary course of business. Considering the insurance which is in place for a portion of the litigation, and noting that the ultimate consequences of any particular litigation may not be conclusively determinable, it is the opinion of our management and our legal counsel that none of our current litigation will have a material effect on our operations or financial condition taken as a whole.

Pension and Stock Purchase Plans

(Thousands of Dollars, Except Per-Share Data)

Pension Plans

We have three pension plans, which cover all employees who meet certain requirements of age, length of service and hours worked per year. The benefits which they will receive from the plans are defined by the respective plan agreements. A small fourth plan was merged into the major plan early in 1982.

Contributions to the pension plans are made solely by the Corporation and are equal to the amount of pension plan expense determined by an outside actuarial firm. These contributions totaled $13,857 in 1982, $12,761 in 1981, and $12,704 in 1980. To compute pension expense, our actuarial firm estimates the total benefits which will ultimately be paid to eligible employees and then allocates these costs to future periods. To do this, assumptions are made on the years the employees will work, their future salary increases, the number of employees who will earn the right to receive benefits under the plans, and the rate of return (presently 7%) which will be received on the plans' present assets and future contributions.

The benefits shown in the following statement are the present values of the total benefits which our employees had earned as of the end of the calendar year. Our actuarial firm assumed a 7% rate of return in calculating these present values.

Assets and Liabilities of Pension Plans

	December 31 1982	1981
Equity securities	**$109,089**	$ 81,310
Fixed income securities	**67,654**	59,899
Insurance contracts	**12,818**	7,710
Contribution receivable	**—**	1,068
Total assets at market (cost: 1982—$178,143; 1981—$153,268)	**189,561**	149,987
Accumulated benefits		
Vested	**153,253**	142,705
Not vested	**8,849**	8,324
	162,102	151,029
Excess (deficiency) of assets over accumulated benefits	**$ 27,459**	$ (1,042)

Each percentage point change in the assumed rate of return would change the present value of vested and non-vested accumulated benefits by approximately $14,500. If we assumed the rates of return provided by the Pension Benefit Guaranty Corporation, our weighted average rate would be 9% rather than 7% and the present value of accumulated benefits would be reduced by approximately $29,000 with no change in the value of the plans' assets. The higher interest rate assumption would thus give us an excess of assets over accumulated benefits of $56,000.

Supplemental Retirement and Savings Plan

Employees who meet certain eligibility requirements (based primarily on age and length of employment) can join the Supplemental Retirement and Savings Plan. Mervyn's has not yet adopted the plan, so its employees are not eligible. The name was changed from the Savings and Stock Purchase Plan with the introduction of certain new features available as of January 1, 1983. Under the new plan, we contribute 50 cents for each dollar invested by an employee up to 2½% of the employee's gross cash compensation. Employees can invest up to 15% of their current gross cash compensation in the plan, with up to 5% being paid into the plan on a before-tax basis. Employees are partially vested with respect to the employer contributions after they have been in the plan two years and are fully vested after six years. Their own contributions are always fully vested.

The Corporation contributed $3,968 to the plan in calendar 1982, $3,578 in calendar 1981 and $3,203 in calendar 1980.

Assets and Liabilities of Supplemental Retirement and Savings Plan

	December 31	
	1982	1981
Investments at market value:		
Dayton Hudson Stock Fund	$ 34,054	$ 19,318
Fixed Income Fund	36,040	30,755
Equity Fund	50,178	39,656
Total assets	**$120,272**	$ 89,729
Funds payable for securities and plan withdrawals	$ 1,516	$ 1,705
Plan equity	118,756	88,024
Total liabilities and equity	**$120,272**	$ 89,729

Stock Options, Performance Shares and Stock Appreciation Rights

We have four stock option plans for key employees. The 1981 Executive Long-Term Incentive Plan is the only one under which new grants can now be made. New grants can be for stock options or performance shares, or both. The options can be Incentive Stock Options, Non-Qualified Stock Options, or a combination of both. Incentive Stock Options have tax advantages for the employee, but can be exercised only in the order in which they were granted. Twelve months after the grant date, 25% of any options granted become exercisable and another 25% after each succeeding 12 months. The options are cumulatively exercisable and expire no later than 10 years after the date of the grant. The performance shares pay cash and stock if certain selected performance goals are met at the end of a four-year period. The 1976 Executive Long-Term Incentive Plan was essentially the same as the 1981 plan except that Incentive Stock Options were not available.

Two earlier plans, the 1972 Dayton Hudson Stock Option Plan and the 1976 Mervyn's Tandem Option Plan, offered stock appreciation rights in conjunction with the stock options granted. These rights allow the employees to surrender some of their options in exchange for shares of Dayton Hudson Common Stock. The number of shares of stock which they can receive is based on the difference between the price of the options and the market price of our Common Stock on the day the exchange takes place. At January 29, 1983, outstanding options for 8,230 shares had stock appreciation rights attached. The 1972 Plan grants expire 10 years from the date of the grant, and the 1976 Mervyn's Plan grants expire eight years from the date of the grant.

We base our expense accrual for stock appreciation rights on the relative likelihood that our employees will elect to exercise the rights rather than the related options. We record expense on performance shares based on the current market price of our Common Stock, and the extent to which the performance goals are being met. We recorded compensation expense of $2,262, $561 and $1,208 in 1982, 1981 and 1980, respectively. When employees exercise options, the total option price is credited to Common Stock and additional paid-in capital and no expense is incurred.

The number of shares of unissued Common Stock reserved for future grants under all the plans was 1,011,100 at the end of 1982 and 1,172,843 at the end of 1981.

Options and Performance Shares Outstanding

	Options			Performance Shares Outstanding (a)
	Number of Shares	Price Per Share	Shares Exercisable	
1980				
Outstanding, beginning of year	933,512	$ 3.97–$21.59	468,054	120,300
Granted	249,010	20.88– 24.72		
Cancelled	(58,746)	14.25– 24.72		
Exercised	(131,110)	3.97– 20.88		
1981				
Outstanding, beginning of year	992,666	3.97– 24.72	507,036	134,950
Granted	174,737	26.81– 30.16		
Cancelled	(102,122)	14.25– 28.59		
Exercised	(232,964)	3.97– 24.72		
1982				
Outstanding, beginning of year	832,317	3.97– 30.16	431,860	111,000
Granted	135,792	34.88– 54.25		
Cancelled	(39,291)	18.63– 34.88		
Exercised	(229,964)	3.97– 29.19		
Outstanding, end of year	698,854	$ 3.97–$54.25	339,558	103,076

(a) Excludes performance shares issued in conjunction with options.

Report of Ernst & Whinney, Independent Auditors

Board of Directors and Shareholders
Dayton Hudson Corporation
Minneapolis, Minnesota

We have examined the consolidated statements of financial position of Dayton Hudson Corporation and subsidiaries as of January 29, 1983 and January 30, 1982, and the related consolidated statements of results of operations, shareholders' investment and changes in financial position for each of the three years in the period ended January 29, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Dayton Hudson Corporation and subsidiaries at January 29, 1983 and January 30, 1982, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended January 29, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

Minneapolis, Minnesota
March 18, 1983

Report of Management

Responsibility for Financial Statements and Accounting Controls

The financial statements and related information presented in this report have been prepared by our management according to generally accepted accounting principles. Estimates and other amounts in these statements reflect our best judgments. Management is responsible for the presentation, integrity and consistency of the data in the Annual Report.

To discharge this responsibility, we maintain a comprehensive system of internal controls and organizational arrangements designed to provide reasonable assurance that assets are safeguarded from unauthorized use or disposition, transactions take place in accordance with management's authorization and are properly recorded, and financial records are adequate for preparation of financial statements and other financial information. The concept of reasonable assurance is based upon a recognition that there are inherent limitations in any system of internal controls because the cost of the controls should not exceed the benefit derived. After judging the cost and benefit factors, we believe our system of internal controls provides this reasonable assurance.

To ensure the ongoing effectiveness of our internal control system, our goal is to recruit and employ highly qualified people, provide comprehensive written guidelines regarding procedural and ethical matters, and conduct effective training programs. We also provide and promote an environment which encourages free and open communication at all levels in our organization.

The members of the Audit Committee of the Board of Directors, none of whom is a present employee or officer of the Corporation, are listed on page 40 of this report. The committee recommends independent auditors for appointment by the Board of Directors, and reviews their proposed services and their reports. The committee also reviews the internal audit plan and the results of the internal audit effort. Our independent auditors, Ernst & Whinney, our internal auditors, our general counsel and our corporate controller have full and free access to meet with the Audit Committee, with or without the presence of management. The Audit Committee meets regularly to discuss the results of the auditors' examinations and their opinions on the adequacy of internal controls and the quality of financial reporting.

Our financial statements have been audited by Ernst & Whinney, whose report appears on this page. Their report expresses an opinion as to the fair presentation of the financial statements and is based on an independent examination made in accordance with generally accepted auditing standards.

William A. Andres
Chairman and
Chief Executive Officer

Richard L. Schall
Vice Chairman and
Chief Administrative Officer

Willard C. Shull, III
Senior Vice President,
Finance

Michael M. Pharr
Senior Vice President
and Controller

Accounting for the Impact of Inflation

We experienced only moderate inflation in 1982. However, the cumulative effects of the high inflation rates of recent years continue to have a significant impact on our business. Historical measures of profitability tend to overstate earnings performance. The current cost to replace assets, particularly fixed assets, would be significantly higher than the costs reflected in the historical financial statements. A volatile environment calls for sound strategic and operational responses. Our strategic response is concentrated on effective resource allocation. We focus upon a real, or inflation-adjusted, return on investment to determine the business mix which will best position us for real growth over the long term. Our operational response is concentrated on productivity improvements in pricing, expense control and asset management.

Inflation affects our profit formulas and growth measures in several ways:

- The competitive nature of retailing restricts our ability to raise prices. Retail price increases have fluctuated only 3% to 6% during the past five-year period, whereas the wholesale price index for general merchandise has varied from 3% to 11% during the same period.
- Expense inflation, as measured by the Consumer Price Index-Urban (CPI-U), has also risen faster than our retail prices, with rates of 4% to 14% over the past five years. The retailing industry is more labor intensive than most other industries. As a result, operating expenses in our historical financial statements reflect general inflation more fully than those of most other industries.
- Like most retail companies, we use the last-in, first-out (LIFO) inventory accounting method for reporting purposes. We believe LIFO provides a better matching of

Management's Inflation-Adjusted Information
(Millions of Dollars, Except Per-Share Data)

	1982	1981	1980	1979	1978
Revenues					
As reported	$ 5,661	$ 4,943	$ 4,034	$ 3,385	$ 2,962
Adjusted for inflation (BLS)*	$ 5,661	$ 5,128	$ 4,411	$ 3,928	$ 3,621
Earnings					
Pretax from continuing operations before inflation adjustments	$ 374	$ 307	$ 283	$ 268	
Cost to maintain inventories (LIFO)	(1)	(19)	(33)	(27)	
Pretax as reported	373	288	250	241	
Cost to maintain store locations and other owned and leased facilities (additional depreciation)	(57)	(50)	(37)	(33)	
Income taxes as reported	(175)	(128)	(112)	(114)	
Net, adjusted for inflation (current cost)	141	110	101	94	
Dividends declared	(55)	(50)	(45)	(41)	
Retained after dividends	$ 86	$ 60	$ 56	$ 53	
Earnings Per Share					
Continuing operations, as reported	$ 4.12	$ 3.33	$ 2.90	$ 2.67	
Cost to maintain store locations and other owned and leased facilities (additional depreciation)	(1.20)	(1.04)	(.77)	(.70)	
Adjusted for inflation (current cost)	2.92	2.29	2.13	1.97	
Dividends declared	(1.15)	(1.05)	(.95)	(.85)	
Retained for future growth	$ 1.77	$ 1.24	$ 1.18	$ 1.12	
Ratios					
Inflation-adjusted earnings as a percent of historical	71%	69%	73%	74%	
Dividends declared as a percent of prior year inflation-adjusted earnings	50%	50%	49%		
Effective tax rates					
As reported	46.8%	44.5%	44.8%	47.5%	
Adjusted for inflation (current cost)	55.4%	53.8%	52.5%	55.0%	
Shareholders' equity (net assets)					
As reported	$ 1,349	$ 1,193	$ 1,066	$ 963	
After adjusting assets to current cost, in 1982 purchasing power (CPI-U)**	$ 1,944	$ 1,802	$ 1,705	$ 1,722	
Dividends declared per common share					
As reported	$ 1.15	$ 1.05	$ .95	$ .85	$ .75
In 1982 purchasing power (CPI-U)	$ 1.15	$ 1.11	$ 1.11	$ 1.12	$ 1.10
Market price of Common Stock at year-end					
As quoted	$ 54.50	$ 28.88	$ 22.38	$ 23.00	$ 19.38
In 1982 purchasing power (CPI-U)	$ 53.92	$ 29.65	$ 24.91	$ 28.59	$ 27.45
Inflation indices					
Average CPI-U (1967 = 100)	290.0	274.2	249.1	219.8	196.9
Average of BLS rate (1973 = 100)	155.5	149.9	142.2	134.0	127.2

*Bureau of Labor Statistics
**Consumer Price Index-Urban

current costs with current revenues than does the alternative method, first-in, first-out (FIFO). Consequently, our historical financial statements already provide a cost to replace inventories each year in real terms.

In 1979, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 33. This statement requires that supplemental disclosures be presented showing the impact of changing prices on the historical financial statements. SFAS No. 33 requires supplementary income calculations based on two methods: current cost accounting and constant dollar accounting. Each method adjusts depreciation expense and cost of retail sales to arrive at inflation-adjusted net earnings. Revenues and all other expenses are adjusted only for changes in the value of the dollar as measured by the CPI-U. We also present our revenues in 1982 dollars measured by an average of the Bureau of Labor Statistics (BLS) index. We believe this index is more representative than the CPI-U of actual price changes in our business.

We consider the current-cost method superior to the constant-dollar method because it more accurately reflects the impact of inflation associated with our operations.

Our inflation-adjusted earnings include additional depreciation expense to reflect in real terms the cost of replacing our current store facilities. We have gone beyond the requirements of SFAS No. 33 by calculating this expense not only for capital leases, but for all operating leases as well.

We believe that we are in a better strategic position to do business in an inflationary environment than many other industries because of the newness of our Target, Mervyn's and B. Dalton strategies and the fact that the retail industry is less capital intensive than most other industries.

We are encouraged, as well as challenged, by the results of the adjustments for inflation as shown in the table on page 33.

- When we adjust our reported five-year revenue growth rate of 18% by the BLS index, our growth, excluding inflation's impact, is 12%—clearly a strong record.
- After adjusting our net earnings for the additional cost of maintaining owned and leased facilities, we continue to retain profits in our business on a real basis. We have done so for each year the data is calculated.
- Our dividend payout ratio also indicates that on a real basis we are returning earnings to our shareholders rather than capital.
- Our 1982 retained net earnings as a percent of inflation-adjusted equity (4%) continues to show real growth in equity.
- Shareholders' equity, when adjusted for the current cost of our inventories and owned and capitalized leased assets, more accurately reflects the worth of our investment. The worth of our investment increases to $1.9 billion, compared with $1.3 billion as shown in our financial statements on page 25.

Current Cost

Return on Investment

	1982	1981
Net earnings before cost to maintain inventories	**$ 199,114**	$ 169,967
Cost to maintain inventories (LIFO)	**(746)**	(10,467)
Net earnings as reported	**198,368**	159,500
Cost (additional depreciation) to maintain assets		
Owned assets	**(47,339)**	(39,494)
Leased assets		
Capital	**(2,165)**	(2,270)
Operating	**(8,095)**	(7,864)
Net earnings, current cost	**140,769**	109,872
Interest expense–after tax	**26,300**	13,400
Interest equivalent in leases	**19,800**	19,600
Net earnings from continuing operations, current cost, before financing costs	**$ 186,869**	$ 142,872
Working capital	**$ 754,410**	$ 553,546
Net property and equipment	**1,413,003**	1,171,044
Non-current assets of discontinued operations (net)	**12,546**	36,594
Other assets	**7,425**	5,568
Capital leases	**139,156**	137,231
Operating leases	**431,111**	356,979
Total investment at beginning of year, current cost	**$2,757,651**	$2,260,962
Return on investment	**6.8%**	6.3%

Our current-cost earnings in 1982 purchasing power (CPI-U) are:

	1982	1981	1980	1979
Net earnings–continuing operations	**$139,280**	$112,789	$112,867	$116,276
Earnings per share	**$ 2.89**	$ 2.35	$ 2.37	$ 2.45

Shareholders' Equity and Capitalization

The value of shareholders' equity stated on a current-cost basis is higher than that shown in our financial statements on page 25, as a result of inflation's impact on our inventories and net property and equipment. Total capitalization also increases due to inflation's impact on our operating leases.

	1982	1981	1980
Shareholders' equity as reported	$1,348,763	$1,192,681	$1,066,368
Current-cost adjustment for inventory	137,323	135,921	130,163
Current-cost adjustment for owned and capitalized leased assets	480,919	426,507	335,730
Shareholders' equity, current cost	1,967,005	1,755,109	1,532,261
Current-cost adjustment for operating leases	147,871	144,745	101,240
Capitalized value of operating leases	449,159	286,366	255,739
Long-term debt, notes payable, deferred items and capital leases	691,860	571,431	371,722
Total capitalization, current cost	$3,255,895	$2,757,651	$2,260,962

Historical inventories, which are valued under the LIFO method, have been increased to approximate current replacement cost by adding back the cumulative LIFO provisions.

Adjustments for Inventories

	LIFO Inventory	Accumulated LIFO Provision	FIFO Inventory
1982			
Target	$338,947	$ 31,319	$370,266
Mervyn's	188,759	25,841	214,600
Department stores	146,717	59,056	205,773
Specialty merchandisers	110,526	21,107	131,633
Total	$784,949	$137,323	$922,272
1981			
Target	$288,524	$ 36,568	$325,092
Mervyn's	147,100	21,835	168,935
Department stores	139,576	56,748	196,324
Specialty merchandisers	87,874	20,770	108,644
Total	$663,074	$135,921	$798,995

Net property and equipment values are also higher because the costs to replace them are greater today than when they were first purchased. Current costs of property and equipment were determined using indices based on annual changes in the cost of constructing or purchasing new assets.

Adjustments for Owned and Leased Assets

	1982	1981
Target	$229,327	$189,532
Mervyn's	102,216	81,280
Department stores	205,645	202,683
Specialty merchandisers	65,341	71,276
Corporate	26,261	26,481
Total	$628,790	$571,252

Constant Dollar

The constant dollar method of determining the impact of inflation uses the CPI-U as an index of rising values for inventory and owned and leased facilities. As previously stated, we do not believe this is a relevant index for our business. The following data show how application of the CPI-U would affect our results.

(In Average 1982 Dollars)	1982	1981	1980	1979
Shareholders' equity (net assets)	$1,910,512	$1,808,955	$1,730,424	$1,676,876
Net earnings	$ 109,774	$ 78,098	$ 83,771	$ 89,346
Earnings per share	$ 2.28	$ 1.63	$ 1.76	$ 1.88

Constant dollar adjustments to reported 1982 net earnings consist of $56,407 in additional depreciation expense on owned and leased property and equipment and $32,187 in additional cost of goods sold.

Revenues adjusted for the effect of inflation as measured by the CPI-U are as follows:

Revenues (1982 Dollars)

(Millions of Dollars)	1982	1981	1980	1979	1978
As reported	$5,661	$4,943	$4,034	$3,385	$2,962
As adjusted (CPI-U)	$5,661	$5,226	$4,696	$4,466	$4,362

Holding and Monetary Gains

Holding gains occur when the worth of our assets as measured by the current cost method rises faster than the loss of purchasing power in the dollars needed to replace them, as measured by the CPI-U.

In 1982, the current cost of our inventory increased $1,402 and our property and equipment, including all leased assets, increased $126,485 due to the rise in specific prices. General inflation accounted for $107,647 of this increase, resulting in a holding gain of $20,240.

Monetary assets, such as accounts receivable, lose purchasing power during an inflationary period because the dollars they represent purchase fewer goods and services upon realization. Monetary liabilities gain because less purchasing power is required to pay off the obligations.

Neither holding nor monetary gains are included in inflation-adjusted earnings.

(In Average 1982 Dollars)	1982	1981	1980	1979
Holding gains (losses) net of general inflation	$20,240	$10,562	$(128,925)	$(115,824)
Net monetary gains	$22,680	$42,509	$ 40,031	$ 31,101

The inflation-adjusted data represent reasonable approximations of the price changes in our business during the periods under review. They do not represent specific measurements of the assets and expenses involved.

No adjustments to income tax expense were made in computing the inflation-adjusted information, in accordance with current accounting requirements. As a result, the effective tax rate for 1982 increased from 46.8% on a historical basis to 55.4% on a current cost basis.

Ten-Year Comparisons

(Millions of Dollars, Except Per-Share Data)	1982	1981	1980
Revenues	**$5,660.7**	4,942.9	4,033.5
Cost of retail sales, buying and occupancy	**$3,957.9**	3,482.0	2,844.1
Selling, publicity and administrative	**$ 984.1**	883.8	734.3
Depreciation	**$ 100.0**	84.1	59.5
Interest (income) expense	**$ 54.0**	36.6	5.2
Interest and depreciation on capital leases	**$ 18.6**	18.5	16.6
Earnings Before Income Taxes	**$ 373.0**	287.5	250.3
Income Taxes	**$ 174.6**	128.0	112.1
Net Earnings (Loss)			
Continuing	**$ 198.4**	159.5	138.2
Discontinued	**$ 8.3**	13.9	8.5
Consolidated	**$ 206.7**	173.4	146.7
Per Common Share			
Net earnings (loss)			
Continuing	**$ 4.12**	3.33	2.90
Discontinued	**$ .17**	.29	.18
Consolidated	**$ 4.29**	3.62	3.08
Cash dividend declared	**$ 1.15**	1.05	.95
Shareholders' investment	**$ 27.96**	24.82	22.28
Return on Beginning Equity (Shareholders' Investment)			
Continuing	**16.6%**	15.0	14.4
Consolidated	**17.3%**	16.3	15.2
Capital Expenditures	**$ 283.8**	253.7	265.2
Consolidated Year-End Financial Position			
Working capital	**$ 718.3**	508.9	381.3
Property and equipment	**$1,195.7**	1,031.7	872.2
Leased property under capital leases	**$ 97.9**	93.9	100.4
Total assets	**$2,984.1**	2,555.2	2,155.2
Long-term capital lease obligations	**$ 102.4**	96.3	103.3
Long-term debt	**$ 528.9**	331.8	213.8
Shareholders' investment	**$1,348.8**	1,192.7	1,066.4
Average Common Shares Outstanding (Thousands)	**48,110**	47,894	47,606

The Ten-Year Comparisons should be read in conjunction with the Financial Statements.
Per-share amounts and shares outstanding for 1980 and earlier have been restated to reflect a two-for-one Common Stock split effective November 30, 1981.
(a) Consisted of 53 weeks.

1979	1978 (a)	1977	1976	1975	1974	1973
3,384.8	2,961.9	2,494.7	2,125.8	1,852.2	1,609.3	1,461.7
2,353.4	2,055.4	1,731.6	1,480.1	1,285.2	1,148.1	1,043.8
626.6	539.5	441.5	377.8	336.6	298.3	273.2
43.7	34.4	31.2	26.8	24.2	22.9	21.0
(1.1)	8.2	9.9	8.9	9.0	14.7	13.5
13.4	12.0	10.4	8.7	7.8	6.7	5.2
240.7	198.9	187.2	153.9	126.3	59.6	55.6
114.2	101.3	95.5	79.4	65.6	29.6	27.5
126.5	97.6	91.7	74.5	60.7	30.0	28.1
65.6	167.3	6.2	2.5	(.1)	(.4)	2.1
192.1	264.9	97.9	77.0	60.6	29.6	30.2
2.67	2.06	1.95	1.59	1.31	.66	.62
1.38	3.55	.13	.05	—	(.01)	.04
4.05	5.61	2.08	1.64	1.31	.65	.66
.85	.75	.65	.525	.36	.30	.27
20.18	16.99	12.20	10.56	9.26	8.29	7.85
15.6	16.8	18.4	17.1	16.0	8.4	8.3
23.8	45.7	19.6	17.7	16.0	8.3	8.9
218.2	156.1	104.9	76.1	33.4	48.7	40.0
438.8	427.6	309.4	288.2	266.2	239.2	246.5
629.8	472.2	379.7	317.2	280.0	274.3	260.6
67.2	70.9	57.0	52.2	46.7	48.4	41.1
1,793.2	1,637.5	1,411.4	1,213.1	1,083.2	954.9	909.5
73.0	76.8	62.0	56.6	50.6	51.5	43.9
117.6	94.3	116.8	111.7	123.8	147.2	164.0
962.6	808.4	579.8	499.2	435.9	378.6	358.5
47,382	47,194	47,000	46,650	45,894	44,938	44,932

Stores and Locations

Total stores in operation at the end of fiscal 1982 numbered 981 in 47 states, the District of Columbia and Puerto Rico. During the year, we added 16 Target stores, 12 Mervyn's stores, one department store and 83 specialty merchandising stores for a total of nearly 2 million square feet of new retail space.

Target	No. of Stores	Retail Sq. Ft.* (000)
Arkansas		
Little Rock	3	287
Colorado		
Colorado Springs	2	231
Denver	10	1,031
Ft. Collins	1	100
Grand Junction	1	100
Illinois		
Bloomington/ Normal	1	101
Champaign	1	86
Danville	1	81
Moline	1	80
Mt. Carmel	1	58
Indiana		
Anderson	1	93
Bloomington	1	86
Carmel	1	82
Clarksville	1	86
Columbus	1	92
Crawfordsville	1	63
Evansville	2	176
Ft. Wayne	3	270
Huntington	1	61
Indianapolis	10	912
Kokomo	1	87
Lafayette	1	79
Muncie	1	84
New Albany	1	84
Richmond	1	69
Shelbyville	1	51
South Bend	3	262
Iowa		
Ames	1	45
Bettendorf	1	80
Cedar Rapids	2	180
Clinton	1	60
Des Moines	3	315
Dubuque	1	80
Ft. Dodge	1	61
Mason City	1	50
Ottumwa	1	50
Sioux City	1	100
Waterloo	1	101
Kansas		
Wichita	2	200
Kentucky		
Louisville	5	426
Louisiana		
Alexandria	1	101
Lafayette	1	101
Minnesota		
Duluth	1	120
Minneapolis/ St. Paul	14	1,525
Rochester	1	82
Missouri		
St. Louis	10	1,090
Montana		
Billings	1	101

Target	No. of Stores	Retail Sq. Ft.* (000)
Nebraska		
Omaha	3	310
North Dakota		
Bismarck	1	80
Fargo	1	100
Grand Forks	1	100
Minot	1	80
Ohio		
Middletown	1	79
Oklahoma		
Oklahoma City	4	391
Tulsa	2	226
South Dakota		
Rapid City	1	100
Sioux Falls	1	100
Tennessee		
Knoxville	2	183
Memphis	4	401
Nashville	3	303
Texas		
Austin	2	200
Beaumont	1	101
Dallas/Ft. Worth	11	1,217
Houston	14	1,489
Lubbock	1	100
Tyler	1	82
Waco	1	101
Wichita Falls	1	100
Wisconsin		
Milwaukee	5	556
Racine	1	101
Wyoming		
Casper	1	101
Total Target Stores	167	16,261

Mervyn's	No. of Stores	Retail Sq. Ft.* (000)
Arizona		
Phoenix	6	504
Tucson	1	82
Yuma	1	75
California		
Bakersfield	1	102
Capitola	1	75
Chico	1	60
El Centro	1	64
Fresno	1	105
Lancaster	1	81
Lodi	1	68
Los Angeles	17	1,344
Marysville	1	67
Merced	1	60
Modesto	1	62
Oceanside	1	75
Redlands	1	76
Sacramento	4	277
Salinas	1	60
San Bernadino	1	85
San Diego	4	326
San Francisco Bay Area	17	1,302
San Jose	6	498
Santa Rosa	1	90
Stockton	1	81
Ventura	1	75
Visalia	1	60
Nevada		
Las Vegas	2	159
Reno/Sparks	2	127

Mervyn's	No. of Stores	Retail Sq. Ft.* (000)
New Mexico		
Albuquerque	1	114
Oregon		
Portland	3	278
Texas		
El Paso	2	158
Amarillo	1	75
Utah		
Ogden	1	83
Orem	1	93
Salt Lake City	4	354
Washington		
Vancouver	1	83
Total Mervyn's Stores	92	7,278

Department Stores	No. of Stores	Retail Sq. Ft.* (000)
Hudson's		
Detroit, MI	8	2,779
Ann Arbor, MI	1	187
Flint, MI	1	272
Grand Rapids, MI	1	124
Kalamazoo, MI	1	124
Lansing, MI	2	206
Pontiac, MI	1	289
Saginaw, MI	1	122
Ft. Wayne, IN	1	122
South Bend, IN	1	123
Toledo, OH	1	187
	19	4,535
Dayton's		
Minneapolis/St. Paul, MN		
Department Stores	7	2,482
Home Stores	3	183
Rochester, MN	1	163
St. Cloud, MN	1	99
Fargo, ND	1	117
Grand Forks, ND	1	101
Sioux Falls, SD	1	102
La Crosse, WI	1	101
	16	3,348
Diamond's		
Phoenix, AZ	8	1,045
Tucson, AZ	2	224
Las Vegas, NV	3	294
	13	1,563
John A. Brown		
Oklahoma City, OK	4	431
Tulsa, OK	2	201
	6	632
Total Department Stores	54	10,078

Specialty Merchandisers	No. of Stores	Retail Sq. Ft.* (000)
B. Dalton Bookseller		
Northeast	113	439
Southeast	103	347
Midwest	184	597
South Central	91	300
Northwest	35	123
Southwest	134	520
Puerto Rico	2	6
	662	2,332

Specialty Merchandisers	No. of Stores	Retail Sq. Ft.* (000)
Lechmere		
Boston, MA	4	689
Springfield, MA	1	159
Manchester, NH	1	82
	6	930
Total Specialty Merchandisers	668	3,262
Total Retail	981	36,879

*Retail square feet is total square feet less office, warehouse and vacant space.

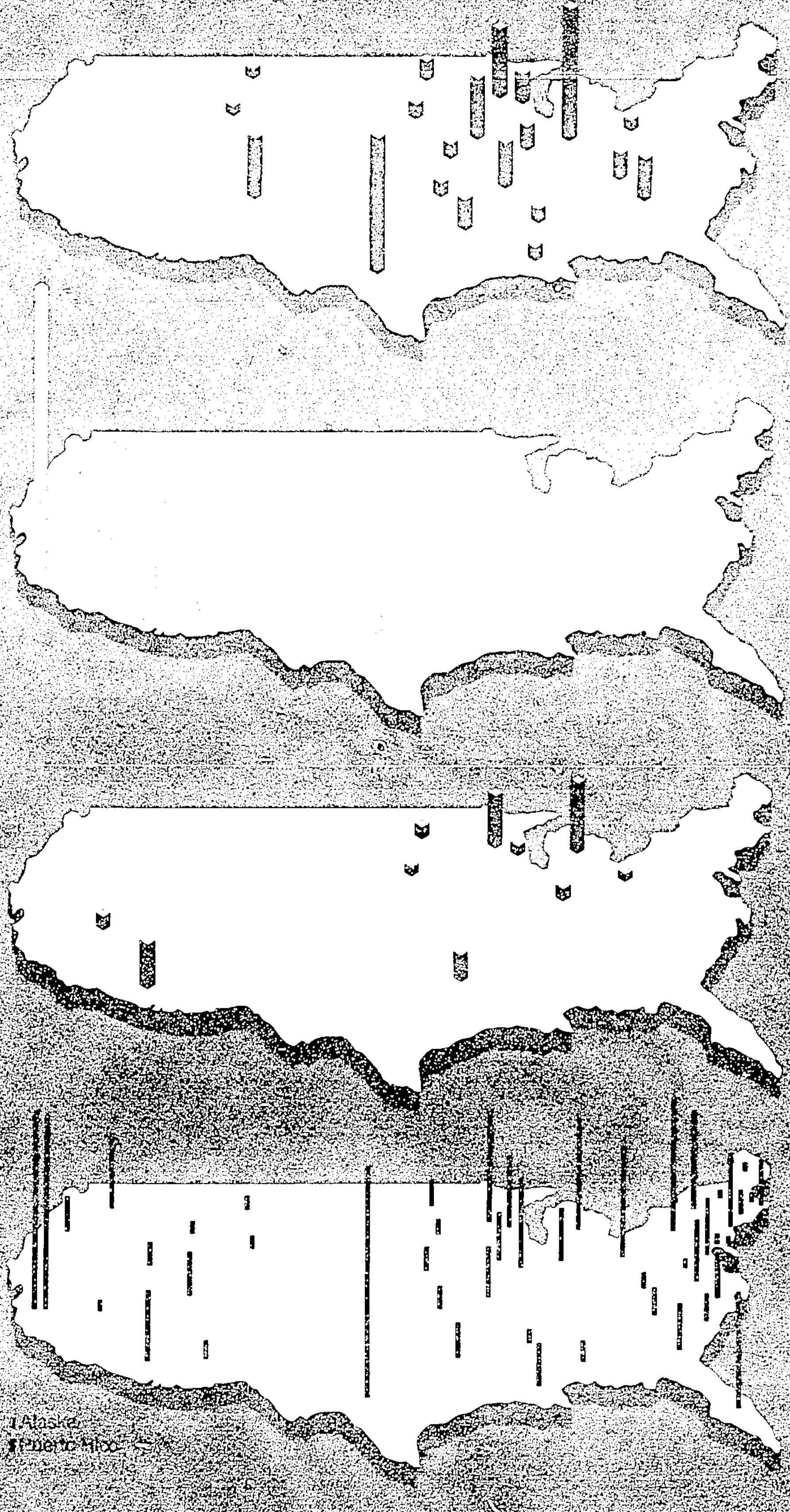
Total Stores by State	
Alabama	5
Alaska	1
Arizona	36
Arkansas	6
California	169
Colorado	25
Connecticut	6
Delaware	1
Florida	30
Georgia	12
Idaho	3
Illinois	29
Indiana	47
Iowa	27
Kansas	8
Kentucky	9
Louisiana	13
Maine	1
Maryland	15
Massachusetts	12
Michigan	45
Minnesota	57
Missouri	23
Montana	4
Nebraska	9
Nevada	10
New Hampshire	2
New Jersey	19
New Mexico	5
New York	26
North Carolina	11
North Dakota	12
Ohio	31
Oklahoma	21
Oregon	12
Pennsylvania	35
Puerto Rico	2
Rhode Island	1
South Carolina	7
South Dakota	6
Tennessee	16
Texas	95
Utah	12
Virginia	15
Washington	20
Washington, D.C.	1
West Virginia	1
Wisconsin	25
Wyoming	3
Total	981

Target

Mervyn's

Department Stores

Specialty Merchandisers



Directors

William A. Andres, *Chairman of the Board(b)*

Rand V. Araskog, *Chairman of the Board and Chief Executive Officer, International Telephone and Telegragh Corporation (diversified multinational company) (a)(b)(c)*

Bruce B. Dayton, *Former Chairman of the Board (b)(c)*

K. N. Dayton, *Chairman, Executive Committee(b)*

Roger L. Hale, *President and Chief Executive Officer, Tennant Company (industrial equipment manufacturer)(b)*

Donald J. Hall, *President, Chief Executive Officer and Vice Chairman of the Board, Hallmark Cards, Incorporated (greeting card manufacturer)(a)(b)(c)*

Howard H. Kehrl, *Vice Chairman, General Motors Corporation (manufacturer of transportation equipment)(a)(b)*

Kenneth A. Macke, *President*

Bruce K. MacLaury, *President, The Brookings Institution (research and education organization)(a)(b)*

David T. McLaughlin, *President, Dartmouth College(b)(c)*

Richard L. Schall, *Vice Chairman*

William H. Spoor, *Chairman of the Board and Chief Executive Officer, The Pillsbury Company (diversified food producer)(a)(b)*

Alva O. Way, *President, The Travelers Corporation (insurance and financial services company)(a)(b)*

Paul N. Ylvisaker, *Former Dean of the Graduate School of Education, Harvard University (b)(c)*

Shirley Young, *Executive Vice President, Grey Advertising, Inc. (advertising agency)(b)(c)*

(a) Audit Committee
(b) Executive Committee
(c) Corporate Responsibility Committee

Officers

William A. Andres, *Chairman and Chief Executive Officer*

Kenneth A. Macke, *President and Chief Operating Officer*

Richard L. Schall, *Vice Chairman and Chief Administrative Officer*

P. Gerald Mills, *Executive Vice President*

James T. Hale, *Senior Vice President and Secretary*

John F. Kilmartin, *Senior Vice President*

Michael M. Pharr, *Senior Vice President*

Willard C. Shull, III, *Senior Vice President*

Edwin H. Wingate, *Senior Vice President*

Ann H. Barkelew, *Vice President*

Larry Carlson, *Vice President*

Peter Corcoran, *Vice President*

Karol D. Emmerich, *Vice President and Treasurer*

Stephen W. Hansen, *Vice President*

William E. Harder, *Vice President and Assistant Secretary*

Peter Hutchinson, *Vice President*

Harry N. Jackson, *Vice President*

George L. Lawson, Jr., *Vice President*

Charles J. Shaffer, *Vice President*

Arthur J. Smith, *Assistant Treasurer*

William P. Hise, *Assistant Secretary*

Operating Company Management

Target
Floyd Hall, *Chairman and Chief Executive Officer*

Mervyn's
John F. Kilmartin, *Chairman and Chief Executive Officer*
Wallace Kalina, *President and Chief Operating Officer*

Department Stores

Hudson's
P. Gerald Mills, *Chairman and Chief Executive Officer*
Thomas G. Payne, *President*

Dayton's
Bruce L. Burnham, *Chairman and Chief Executive Officer*

Diamond's
Robert J. Ulrich, *President and Chief Executive Officer*

John A. Brown
James R. Miller, *President and Chief Executive Officer*

Specialty Merchandisers

B. Dalton Bookseller
Sherman A. Swenson, *Chairman and Chief Executive Officer*
Richard R. Fontaine, *President*

Lechmere
C. George Scala, *Chairman and Chief Executive Officer*

Corporate Information

Corporate Offices
777 Nicollet Mall
Minneapolis, Minnesota 55402
Telephone (612) 370-6948

Annual Meeting
The Annual Meeting of Shareholders is scheduled for 10:00 a.m. Wednesday, May 25, 1983, at The Children's Theatre, Minneapolis Institute of Arts, 2400 Third Avenue South, Minneapolis, Minnesota.

Community Involvement Report
In keeping with its commitment to corporate responsibility, Dayton Hudson annually contributes an amount equal to 5% of its federally taxable income to support its giving programs. For a complete report on 1982 contributions and programs, write to Vice President, Public Affairs.

10-K Report
A copy of the Form 10-K annual report filed with the Securities and Exchange Commission for Dayton Hudson's fiscal year ended January 29, 1983, is available at no charge to shareholders. Write to Director, Financial Relations.

Shareholder Investment Service
The Shareholder Investment Service is a convenient way for Dayton Hudson shareholders to acquire additional shares of the Corporation's Common Stock through automatic dividend reinvestment and voluntary cash purchase. All holders of Dayton Hudson Common Stock may participate. For more information, write to Director, Financial Relations.

Transfer Agents and Registrars
Northwestern National Bank of Minneapolis
The Northwestern Trust Company, New York

Dividend Agent
Northwestern National Bank of Minneapolis

Trustees
First Trust Company of St. Paul
- 9¾% Sinking Fund Debentures due 1995
- 10⅞% Sinking Fund Debentures due 2005
- 15¼% Notes due 1991
- 14¾% Sinking Fund Debentures due 2012
- 11⅞% Sinking Fund Debentures due 2012

First National Bank of St. Paul
- 7¾% Sinking Fund Debentures due 1994

Stock Exchange Listings
New York Stock Exchange
Pacific Stock Exchange
(Trading Symbol DH)

Shareholder Assistance
For assistance regarding individual stock records and transactions, contact:
Shareholder Relations
Dayton Hudson Corporation
777 Nicollet Mall
Minneapolis, Minnesota 55402
Telephone (612) 370-6735

Dayton Hudson Corporation
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Minneapolis, Minnesota 55402